

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chairman Kevin Yoder at 9:12 a.m. on January 26, 2010, in Room 346-S of the Capitol.

All members were present except:

Representative Owen Donohoe- excused

Committee staff present:

Nobuko Folmsbee, Office of the Revisor of Statutes
Heather O'Hara, Kansas Legislative Research Department
Alan Conroy, Kansas Legislative Research Department
J.G. Scott, Kansas Legislative Research Department
Jonathan Tang, Kansas Legislative Research Department
Stephen Huggins, Chief of Staff, Appropriations Committee
Kathy Holscher, Committee Assistant, Appropriations Committee

Others attending:

See attached list.

- Attachment 1 Kansas Technology Enterprise Corporation Agency Update
- Attachment 2 Kansas Public Employee Retirement System Update

Representative Gatewood made a motion to introduce legislation that would clarify board compensation allowing the per diem the legislators receive. Seconded by Representative Tafanelli. Motion carried.

Kevin Carr, Interim Chief Executive Officer, Kansas Technology Enterprise Corporation (KTEC), presented an agency update, (Attachment 1). He stated that the primary function of KTEC focuses on high-growth industries in order to place Kansas in a competitive position. Primary areas include: entrepreneurial development; increased capital availability; technology adoption and cluster growth. Mr. Carr stated that a \$75,000 matching grant was just awarded from the United States Department of Commerce. This grant will help fund further avenues of support within small manufacturers, wind energy, waste, hazardous material, air and water, he noted. Mr. Carr stated that the FY 2010 revised budget is \$8 million. He reported that \$1 million was carry over from a 2009 University of Kansas grant that was delayed until the first quarter in 2010, reductions in the investment funds, expenditures, and staff reductions. The Governor's proposed allotment would reduce the KTEC budget by 3.6%. He added that the agency continues to evaluate areas that may have the greatest impact in the future such as clean tech and aviation.

Glen Deck, Executive Director, Kansas Public Employee Retirement System, presented an update on the Kansas Public Employee Retirement System (KPERS), (Attachment 2). He reviewed the defined benefit formula and retirement funding contributions. He stated that there are 268,000 active employees of which more than half are employed by school districts. Mr. Deck reported that due to market declines, investment returns for FY 2009 were a negative 19.6%, however, by the end of December 2009 preliminary returns were at 17.3%. He stated that \$11.7 billion in trust fund assets are managed by KPERS within United States and international markets. Due to the 2008 market decline, there has been a substantial negative impact on the funding status of KPERS, he added. Baseline projections were reviewed, and he noted that the employer contribution rate is capped at .6%. The joint committee on pensions, investments and benefits have met to look at funding options. Mr. Deck reviewed the defined benefit options and discussed the impact of those options. He emphasized the School Group's funded ratio, which remains below 60%. Mr. Deck expressed concern for this group's vulnerability in further market downturns and their investment performance.

Mr. Deck responded to questions from committee members. He stated that the option of adjusting the modifier, and increasing employee contributions was explored. Mr. Deck discussed defined contribution options, which was modeled from other states' plans. He stated that there would be a cost through the amortization period of 2023 as we continue to pay down the unfunded liability of \$8.3 million and move towards a defined contribution plan. Mr. Deck stated that a proposal should include fixing the existing defined benefit plan, which will require an increase in employer/employee contribution cap. Chairman Yoder expressed concern for future generations and a more predictable plan for taxpayers and budgeting purposes in future years.

CONTINUATION SHEET

Minutes of the House Appropriations Committee at 9:12 a.m. on January 26, 2010, in Room 346-S of the Capitol.

Representative Feuerborn stated that the democrats will meet in Minority Leader, Paul Davis' office following the committee meeting.

The next meeting is scheduled for January 27, 2010.

The meeting was adjourned at 10:15 a.m.



Kevin Yoder, Chairperson

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: January 26, 2010

NAME	REPRESENTING
Vidilyn Halse	Budget
Drs Ahlen	Kansas Inc
TERRY FORSYTH	KWEA
Dennis Phillips	KSCOF
RJ Wilson	KOSE
Sackson Lindsey	Hein Law
Jem Light	Intern - Rep Hoest
Mark Tallman	KASB



House Appropriations Committee

Kevin Carr, Interim CEO
January 26, 2010

Appropriations Committee
Date 1-26-10
Attachment 1-1

Need for Innovation Entrepreneurism

12 million new jobs added in 2007, new businesses (1-5 years) responsible for nearly 8 million (two-thirds)

Net creation of jobs since 1980 has occurred in firms less than five years old

Most new firms are small, innovative businesses

Kauffman Foundation Research Series: Firm Formation and Economic Growth, “Where Will The Jobs Come From?”, November 2009

Innovation is the key to good, new jobs for the 21st century. President Barack Obama, August 5, 2009

We need technology and collaboration between business and government to bring about an innovation nation. Rob Atkinson, President, Information Technology & Innovation Foundation

78% of Americans believe innovation will be more important to the U.S. economy in the next three decades than it was in the last three. Newsweek-Intel Global Innovation Survey, November 2009

Need for KTEC

- Create high-growth industries that put Kansas in a competitive position by
 - Selling products outside of Kansas
 - Bringing wealth into the state
 - Creating spin-off companies

- Reduce brain drain

- Diversify tax base

- Improve landscape for innovative companies through access to research, capital and business know-how

Impact on Kansas

“Cyberstates 2009”, ranks Kansas #1 in the nation for high-tech industry job growth.

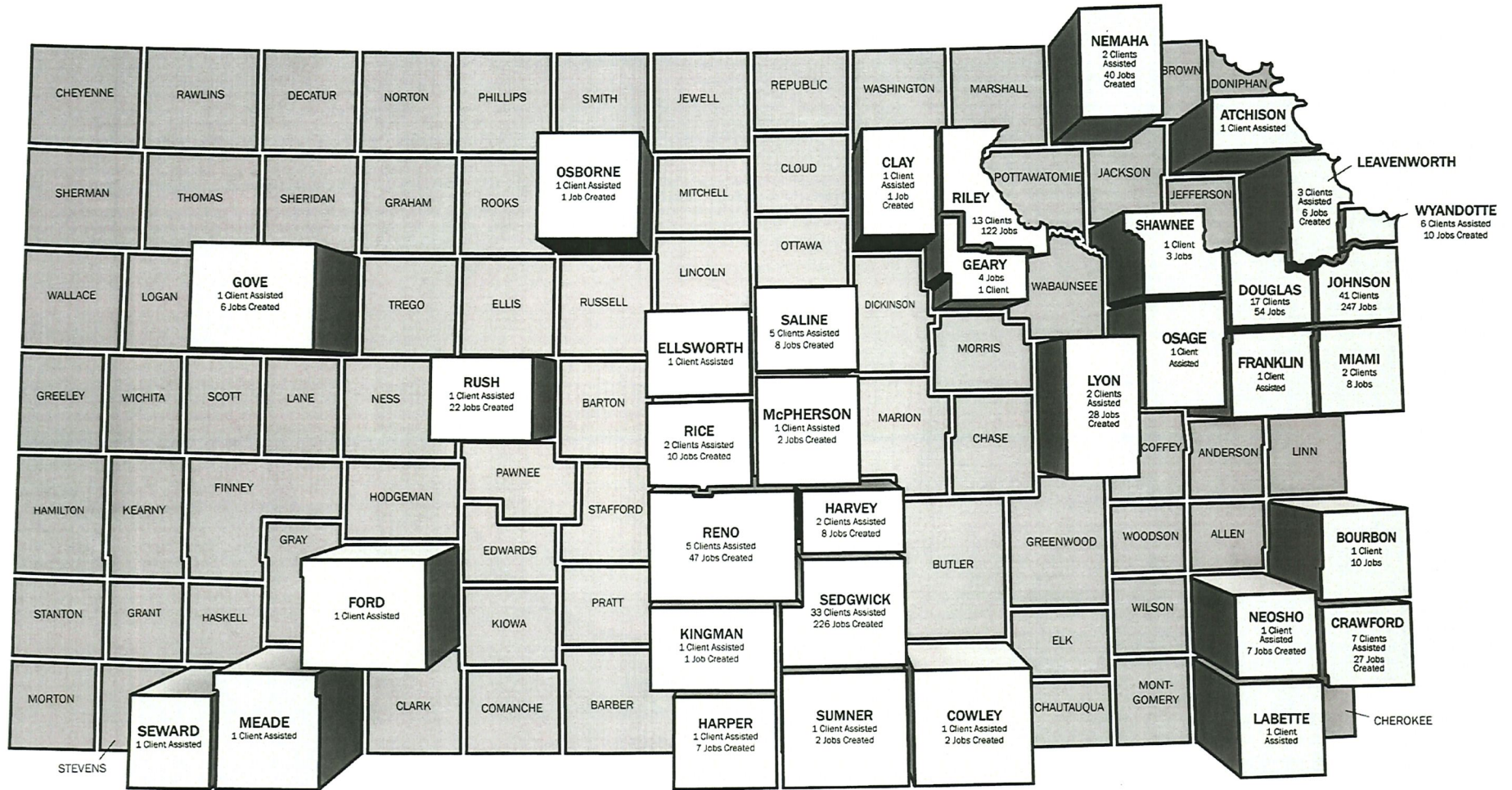
The 2008 State New Economy Index ranks Kansas 8th in nation for “Gazelle Jobs.”
 Rapid growth “Gazelle” companies account for 80% of new jobs created.

Commercialization	FY 2006	FY 2007	FY 2008	FY 2009	Total
New Jobs	294	420	504	501	1,719
Saved Jobs	258	366	429	408	1,461
Start-up Companies	15	17	20	8	60
Sales Revenues (in 000)	152,736	197,877	207,260	315,681	\$873,554
Private \$ Leveraged (in 000)	50,797	43,366	46,169	56,947	\$197,279
Federal \$ Leveraged (in 000)	85,731	63,799	93,903	124,750	\$368,183
Return On Investment (ROI):					
KTEC (\$ to 1)	0.73	0.96	1.00	1.57	1.06
Private \$ Invested in KS vs KTEC (\$ to1)	31.34	23.12	46.85	126.54	42.00
Federal \$ Invested in KS vs KTEC (\$ to 1)	12.28	8.22	14.19	21.99	13.84
Companies Assisted	168	258	209	161	796
Counties Impacted	38	47	39	35	

KTEC Benefits Kansas



1-5



161 companies assisted in FY 2009

Key Focus Areas



1-6

Entrepreneurial Development

Current Execution

6 Entrepreneurial Centers

- Business Strategy
- Market Analysis
- Networking
- Angel capital
- High-tech start-up
- Expertise

Pipeline

- Intensive mentoring
- Networking
- Expertise

KTEC Staff

- Expertise
- Networking

Increase Capital Availability

Current Execution

KTEC Staff

- Direct capital investment
- Facilitate additional investments
- Attract state and national capital
- Facilitate networking
- Angel tax credits
- Proof of concept grants

6 Entrepreneurial Centers

- Angel investment groups
- Direct capital investment
- Facilitate additional investments
- Attract state and national capital
- Facilitate effective networking

Technology Adoption

Current Execution

Match companies to new technology:

- MAMTC
- Eureka Program - the first internet networked marketplace that matches inventors and companies

New Objective

Match technology to an entrepreneur:

- Closely assist Universities with matching technology to entrepreneurs

SBIR:

- Improve competitive process expertise and assistance
- Match small companies with SBIR funding
- Provide matching funding

In Process

Technology Cluster Growth

Current Execution

Centers of Excellence

- | | |
|-------|----------------|
| ITTC | IT |
| BIOC | Pharma |
| KPRC | Materials |
| AMI | Mftr Prototype |
| MAMTC | Mftr Process |
| NIAR | Aviation |

EPSCor/Star Fund Grants

New Objective

- Identify, research & create new technology clusters
- Brainstorm potential clusters with Economic Development Groups
- Research existing KS footprint

In Process

Cleantech Involvement

Energy			Environmental		
Efficiency	Infrastructure	Generation	Remediation	Green Product/Process	Materials
Lighting	Power Mgmt	Wind rotors/components	Air Quality	Manufactured Products	Eco-friendly Composites
AMI	ITTC	NIAR (lg. scale components)	Heartland Tech	AMI	KPRC
EcoFit	mPathX	AMI (small/mid size components)			NIAR
ReLight	Garmin (ITTC)	MAMTC (supply chain)	Hazardous Mat/Waste	Eco-friendly Production	HiPer Tech
Heatron (AMI)	Westar (ITTC)		CEBC	MAMTC (adoption)	
			KPRC	AMI (equip/process design)	
			Nanoscale		
Equip/Trans Efficiency	Gas Transmission		Water/Waste Stream		
AMI	Scavengetech		Adaptive Ozone		
NIAR			AMI (KEMA)		
MAMTC			Carbon Capture		
Rhythm Engineering			AMI		
Rush Tracking (exit)					
Winglet					
Efficient Production					
AMI (process design)					
MAMTC (adoption)					

Process

Identify KTEC assets/existing efforts

Identify Kansas efforts we can complement

e.g. - Wind

- | | |
|-------------------|--------------------------------|
| KDOC | Kansas Wind Supply Chain Conf. |
| Investor Groups | Great Lakes WIND Network |
| Federal Resources | Cluster Study |
| Communities | |

KTEC Funding History

	FY 08 Allocated	FY 09 Allocated	FY 10 Revised
Operations	1,870,276	1,636,168	1,282,564
Centers of Excellence	3,042,627	2,958,044	2,246,863
Grants - EPSCoR/Star	2,145,333	1,888,563	1,250,000
Investment	1,468,612	1,132,684	775,000
Entrepreneurial Centers	1,519,000	1,400,930	1,009,607
MAMTC	1,390,674	1,362,149	545,000
Pipeline	610,000	628,606	501,534
Consulting	555,122	641,330	396,303
Total	\$12,601,644	\$11,648,474	\$8,006,871
Original Allocation of State Funds		12,000,000	7,000,000
Carry Forward			1,006,871

KTEC Budget Summary

- Since the initial round of budget cuts in FY09, KTEC has been cut 43% from \$12 million to \$6.9 million (prior to consideration of the current allotments).
- The Governor's proposed allotment, should it be approved by the legislature, would further reduce the KTEC budget by \$250,000, another 3.6%.
- The KTEC Board established a strategic task force, which has assessed all programs, refined focus and will continue to drive the vision of the organization on an ongoing basis.
- KTEC recently led development of a functional matrix that clarifies roles among practitioners of economic and business development programs and services in the state (including Dept of Commerce, KBA, KSBDC, Network Kansas and KTEC). This effort will serve to avoid duplication and increase collaboration among our economic development partners.
- The Special Committee on KTEC, led by Senator Wysong and Rep. Lana Gordon, gave a positive review of the organization. The full committee report was issued January 11, 2010.

KTEC Board of Directors

David Brant *

Sr. Vice-President Product Engineering
Cessna Aircraft Corporation
Wichita

Thomas Cohen
Principal

Johnson Capital
Overland Park

Dr. Bruce Dallman
Dean of the College of Technology
Pittsburg State University
Pittsburg

Kyle L. Elliott *

Partner / IP Patent Attorney
Spencer Fane Britt & Browne
Kansas City

Representative Doug Gatewood
Kansas Legislature
Columbus

Senator Tom Holland *

Kansas Legislature
Baldwin City

Tom Lauerman *

Private Investor
Leawood

Dr. J. David McDonald *

Associate Provost for Research
Wichita State University
Wichita

Senator Carolyn McGinn
Kansas Legislature
Sedgwick

Robert Murdock
President
Osage Investors I, LLC
Hutchinson

House Speaker Michael O'Neal
Kansas Legislature
Hutchinson

Linda Reinhardt
Erie

Acting Secretary Joshua Svaty
Kansas Dept. of Agriculture
Ellsworth

Secretary Bill Thornton *

Kansas Dept. of Commerce
Topeka

Ron Trewyn
Vice President for Research
Kansas State University
Manhattan

Rusty Wilson
President
Wilson Management
Manhattan

* Strategic Task Force Members

Strategic Planning Task Force Process

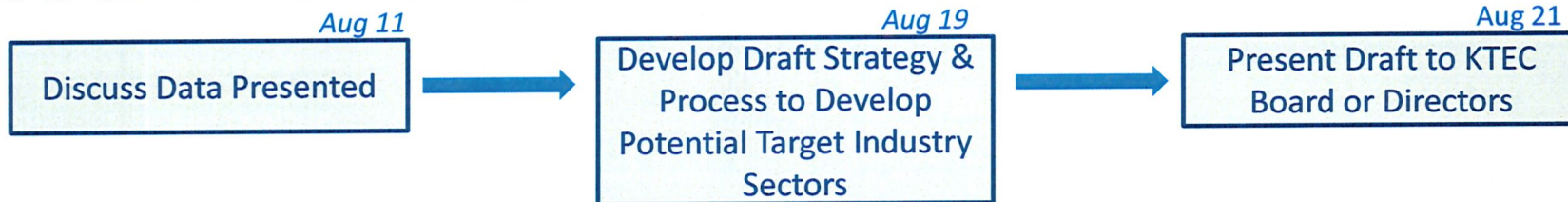


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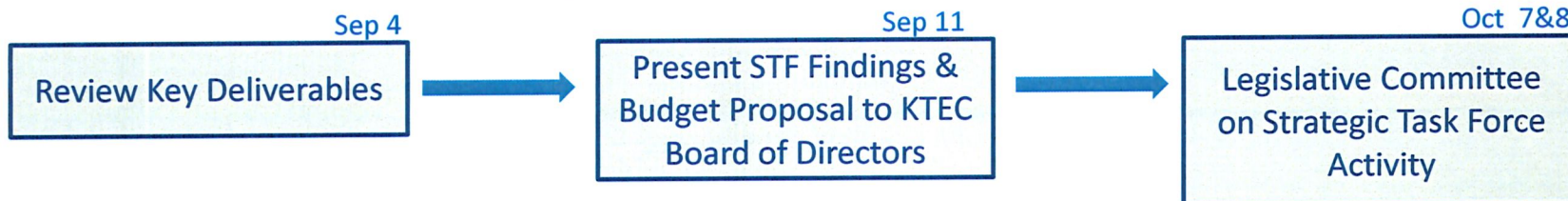
STEP 1: GATHER DATA



STEP 2: CREATE DRAFT PLAN & FUTURE PROCESS



STEP 3: PREPARE STRATEGIC TASK FORCE RECOMMENDATION



Members:

Kyle Elliott
Senator Tom Holland
Secretary Bill Thornton
David Brandt
David McDonald
Ted Haggart
Tom Lauerman
Kevin Carr

Results:

Key Focus Areas
Identified Cluster Development

Kansas Tech-Based Economic Development

<i>What</i>	Eminent Scholars	Proof of Concept Grant	Matching Grants (SBIR/STTR)	Matching Grants (DOE, NIH, DOD, etc) - EPSCor State Match	Matching Grants (DOE, NIH, DOD, etc) - Other State Match	Inter-Institutional Research	Cancer Research	Research Innovations Translated to Marketable Products	Capital Expenditures (Bldgs/Equip)	Capital (Equity) Investment	Capital Needs Assessment/Assistance	Business Assistance - Strategy /Bus Plan Writing /Mkt Analysis	Business Assistance - Licenses/Permits/Filings	Entrepreneurial Education/Collaboration	Workforce, CDC, Mainstreet & Other Training	Equity Investment Tax credits	Job Creation & Capital Ex Tax Credits	Loans with a Match from CDC, KS Mainst or Other Public Sector Entity	Loans without Required Match	Facilitate Access to State Resources	Retention & Expansion Programs	Retention & Expansion Direct Services (mkt analysis, strategy, etc)	Business Recruitment	Workforce Training
<i>Who</i>																								
Med/Large Businesses									Comm		SBDC	SBDC	NetW	SBDC	Comm		Comm		Comm		Comm	SBDC	Comm	Comm
Small Businesses									NetW		SBDC	SBDC	NetW	SBDC	Comm		Comm	NetW	Comm		Comm	SBDC	Comm	Comm
<i>Entrepreneurs - Start-ups:</i>																								
Non High Tech/Bio									NetW		SBDC	SBDC	NetW	SBDC	Comm		Comm	NetW	Comm		Comm	SBDC	Comm	Comm
High tech		KTEC	KTEC						KTEC	KTEC	KTEC	NetW	KTEC		KTEC	Comm		Comm						
Bio Start-ups/Companies		KBA	KBA		KBA	KBA	KBA		KBA			NetW	KTEC		KTEC	Comm		Comm			KBA			
<i>Research:</i>																								
Universities	KBA		KBA	KTEC	KBA	KBA	KBA	KTEC	KBA															
Bio Centers of Innovation	KBA	KBA	KBA		KBA	KBA	KBA	KBA	KBA															


 William (Bill) Thornton, Secretary of Commerce


 Kevin Carr, KTEC Interim CEO


 Tom Thornton, President and CEO KBA


 Wally Kearns, KSBD State Director


 Steve Radley, Director Network Kansas

Kansas Department of Commerce
 Kansas Bioscience Authority
 Kansas Technology Enterprise Corp.
 Network KS (thru CDCs, Regional Foundations & KS Mainstreet)
 Small Business Development Center

Overlap KTEC&KBA - under discussion
 All Economic Development Agencies Listed

KTEC – Moving Forward

Entrepreneurial Development

- Create entrepreneurial culture
- Continue to seek ways to develop and assist entrepreneurs
- Strive to match entrepreneurs with technology

Increase Capital Availability

- Continue to generate deal flow
- Cultivate angels and later stage VCs

Technology Adoption

- Increase collaboration between universities and entrepreneurs
- Focus on matching intellectual property with existing companies and the right entrepreneur
- Target efforts around a few high-potential innovations

Technology Cluster Growth

- Utilize research assets to support clusters
- Serve as a funding model for research investments
- Foster multi-disciplinary R&D
- Ramp up SBIR/STTR federal grants awarded to the state
- Increase matching grants for research focused on translational research

Kansas Public Employees Retirement System

KPERS Long-Term Funding Update

House Appropriations Committee

▪ *January 26, 2010*

Introduction

KPERS administers three defined benefit plans for public employees, police and firefighters, and judges.

Kansas Legislature enacts KPERS' retirement plan design in State statutes, providing for:

- membership eligibility
- employee and employer contributions
- service credit
- vesting
- benefit formula
- retirement eligibility

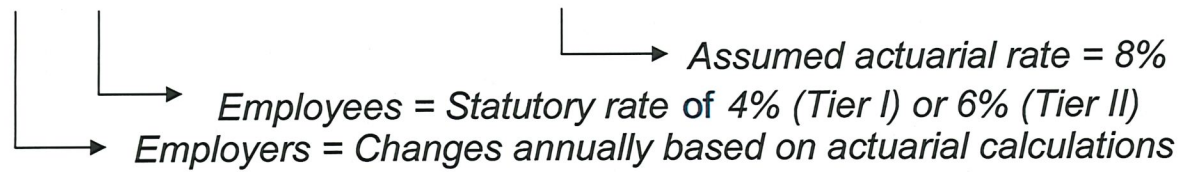
Defined Benefit Formula

▪ Final Average Salary X Years of Service X Statutory Multiplier = Annual Benefit

Example: \$40,000 x 30 years x 1.75% = \$21,000

Retirement Funding

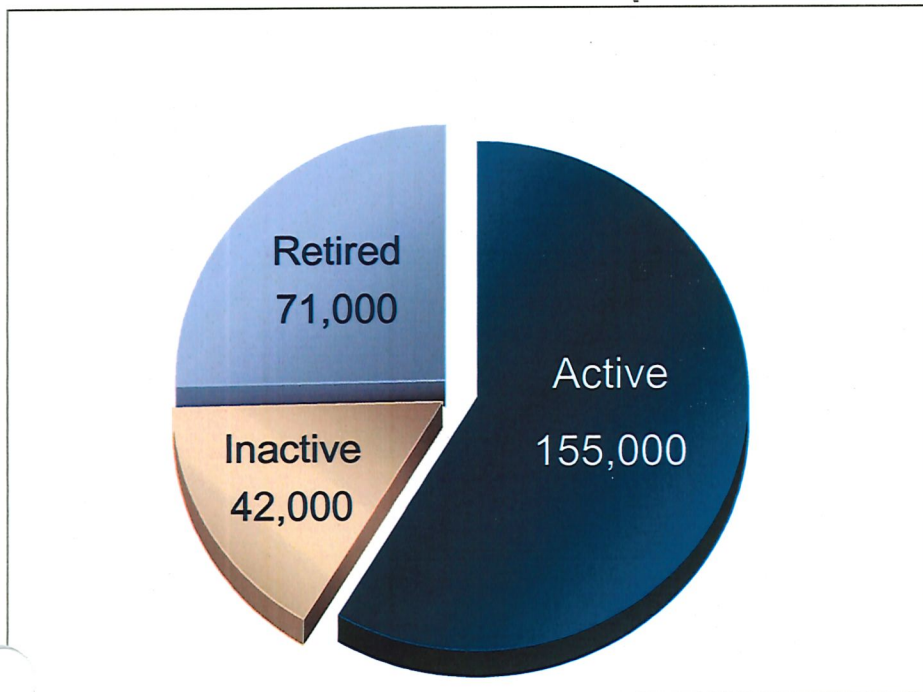
▪ Contributions + Investments - Expenses = Benefits



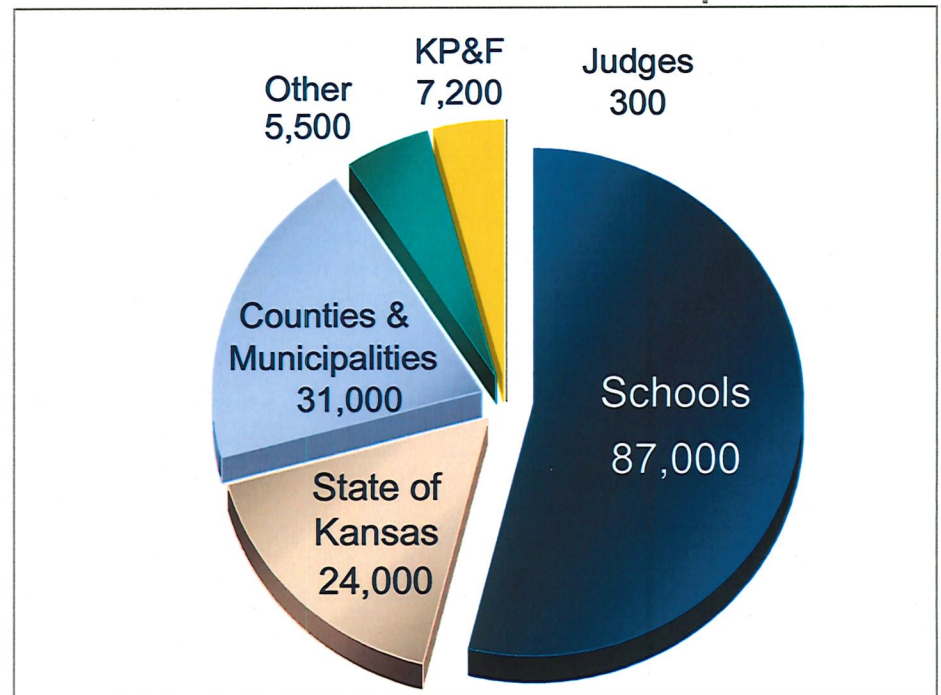
Membership

- Serves 268,000 members.
- State of Kansas is largest participating employer.
- More than half of active members employed by school districts.

Total Membership



Active Membership

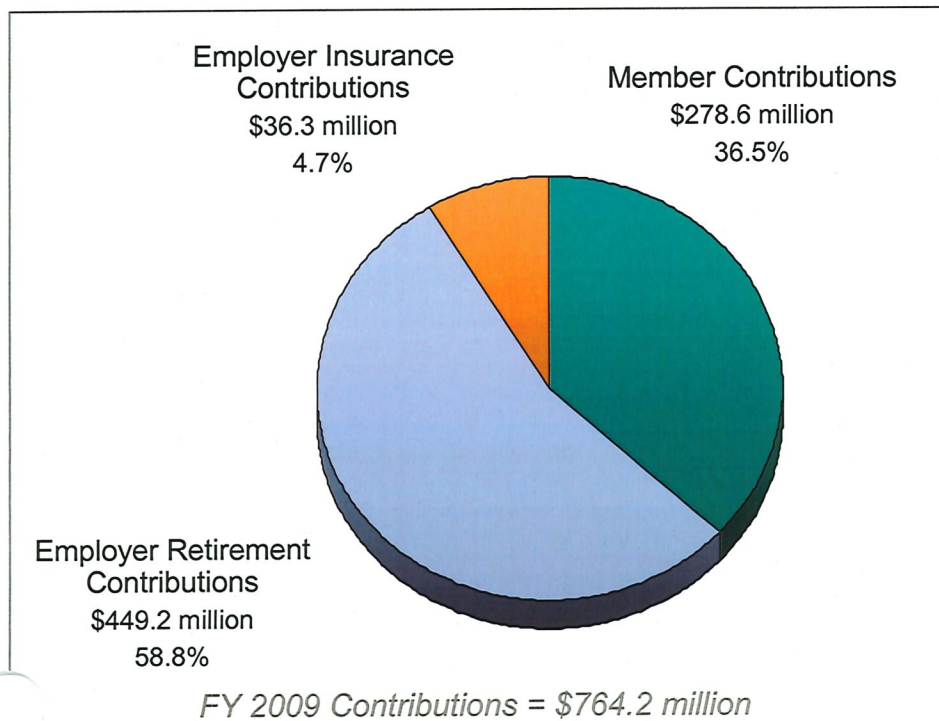


Contributions and Benefits

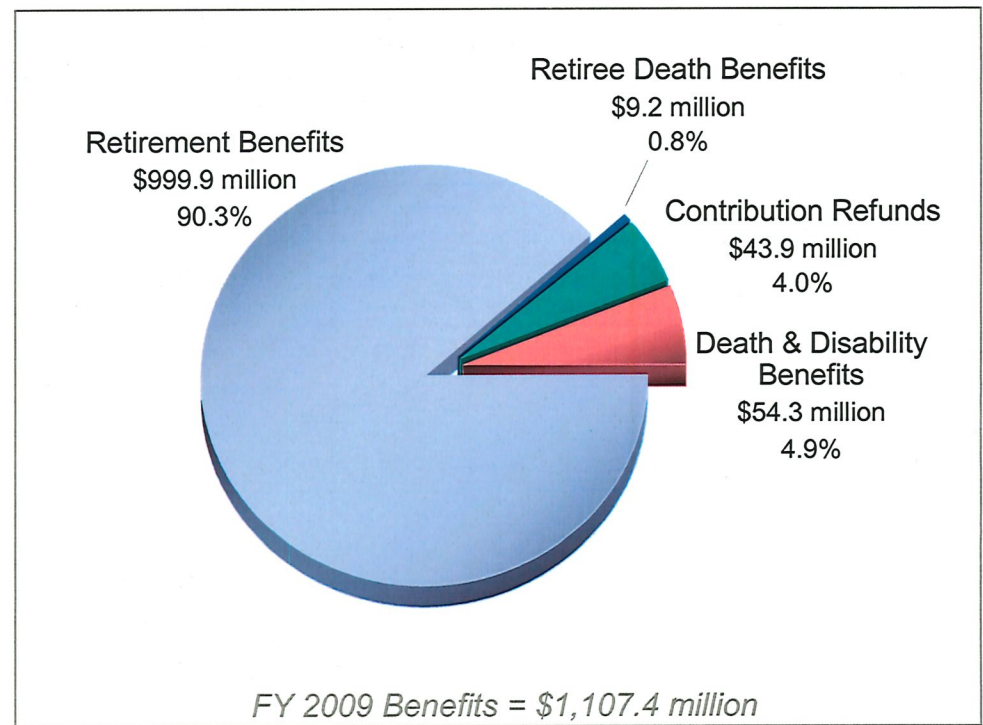
KPERS' total contributions for FY 2009 were over **\$764 million** with benefit payments over **\$1.1 billion**.

- The State pays employer contributions for state and school employees.
- Approximately 85% to 90% of benefits remain in Kansas.

FY 2009 Contributions



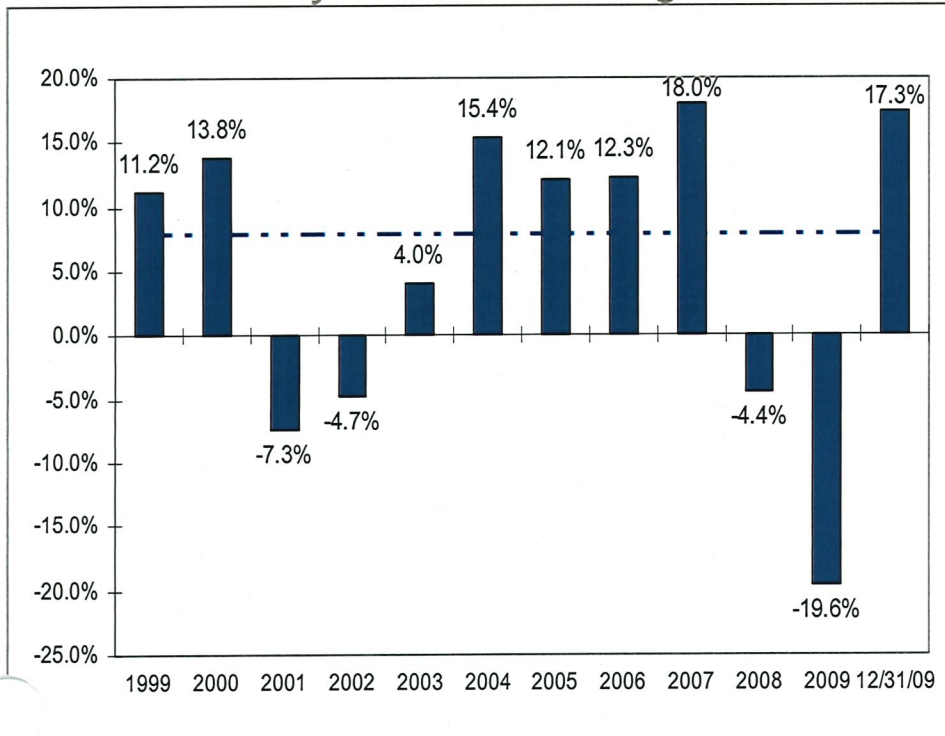
FY 2009 Benefits



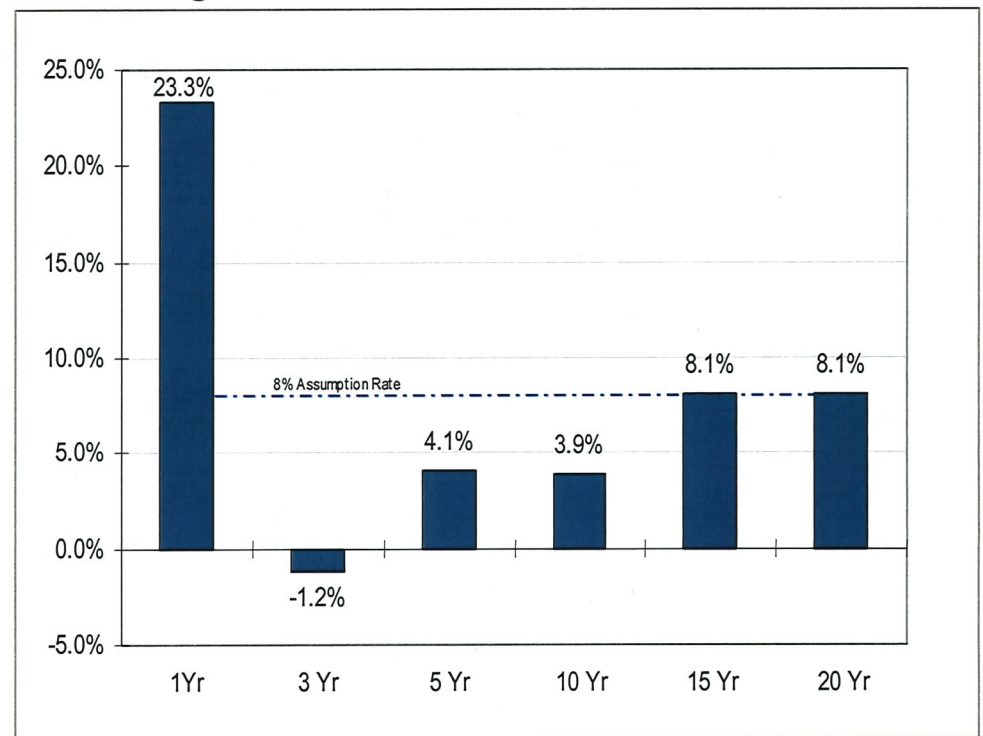
Investment Returns

- Due to these unprecedented market declines, KPERS' investment returns for FY 2009 were -19.6%.
- Beginning in March 2009, markets rebounded significantly through the end of 2009.
- KPERS' investment returns for the first half of FY 2010 reflect these market gains. Preliminary returns through December 31, 2009, are 17.3%.

Return History FY 1999 through 12/31/09



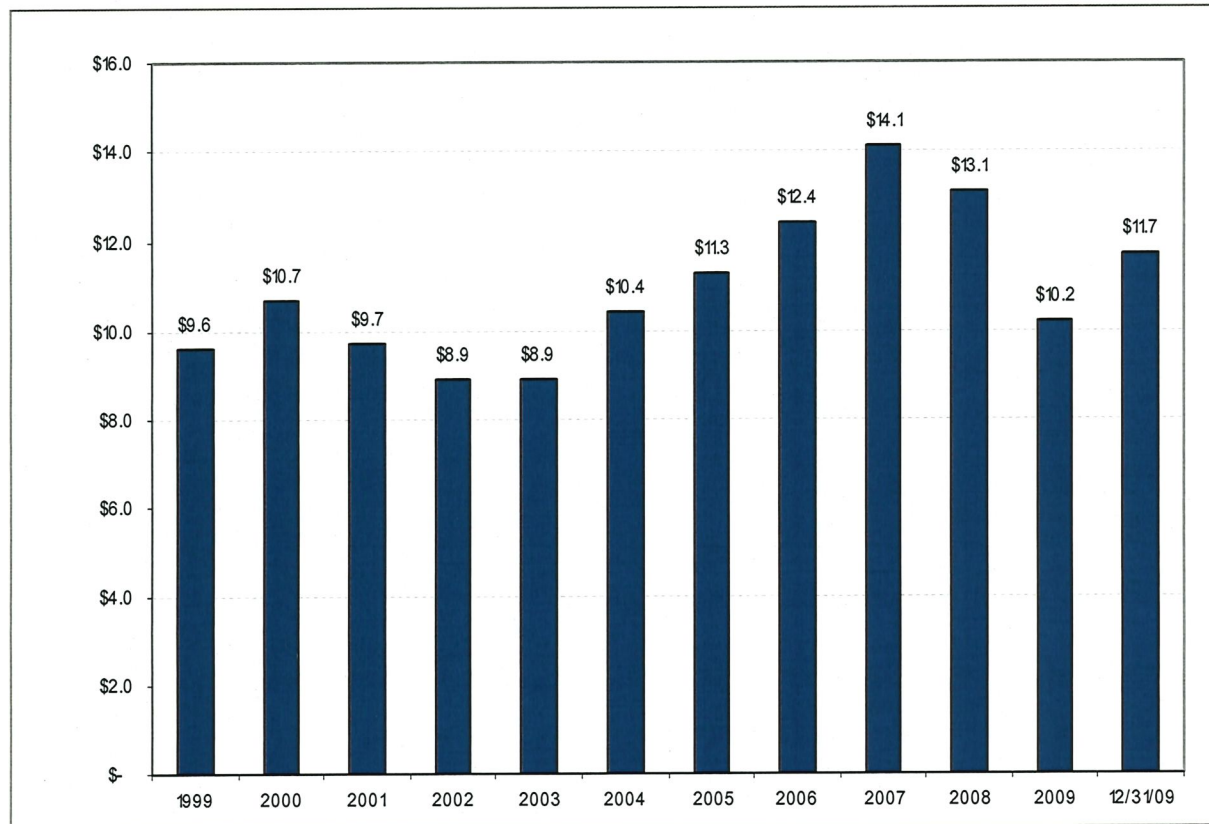
Average Annual Return through 12/31/09



Asset History

KPERS manages the investment of \$11.7 billion in trust fund assets in the U.S. and international markets.

Fund History FY 1999 – 12/31/2009 (in billions)



Key 2008 Valuation Results

- The unprecedented investment market declines in 2008 have had a substantial negative impact on the funding status of the System, reversing forward progress on long-term funding.
- The 12/31/08 actuarial valuation report shows:
 - A 12% decline in the System's funded ratio to 59%.
 - A \$2.7 billion increase in the unfunded actuarial liability (UAL) to \$8.3 billion.
- The actuarial value of assets is now significantly greater than their market value.
 - About \$2 billion in deferred losses will be averaged in over the next four years.
 - On a current market value basis, the funded ratio is 49% and the UAL is \$10.3 billion.
- The School Group is out of actuarial balance. The actuarially required contribution (ARC) rates for State and Local Groups are projected to nearly double their current contribution rates.

Impact on Funded Status by Group

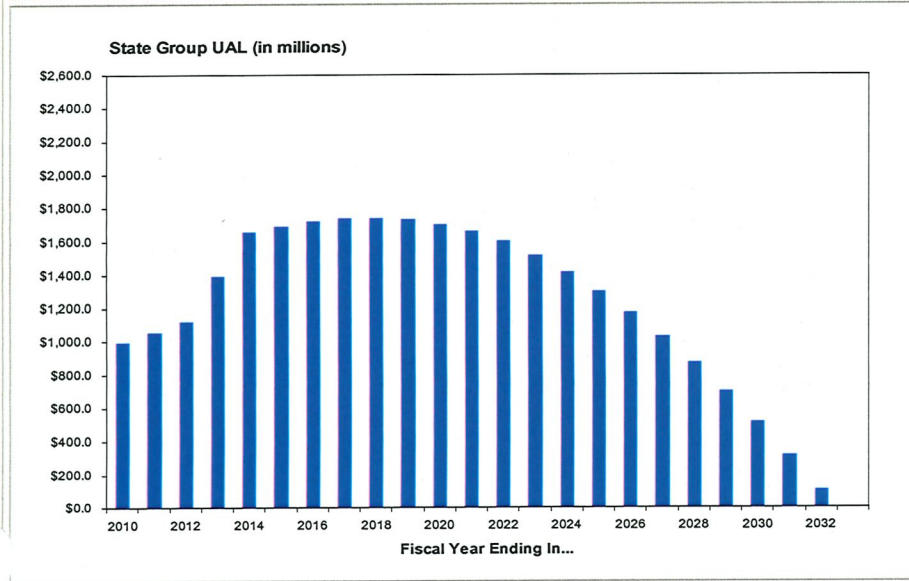
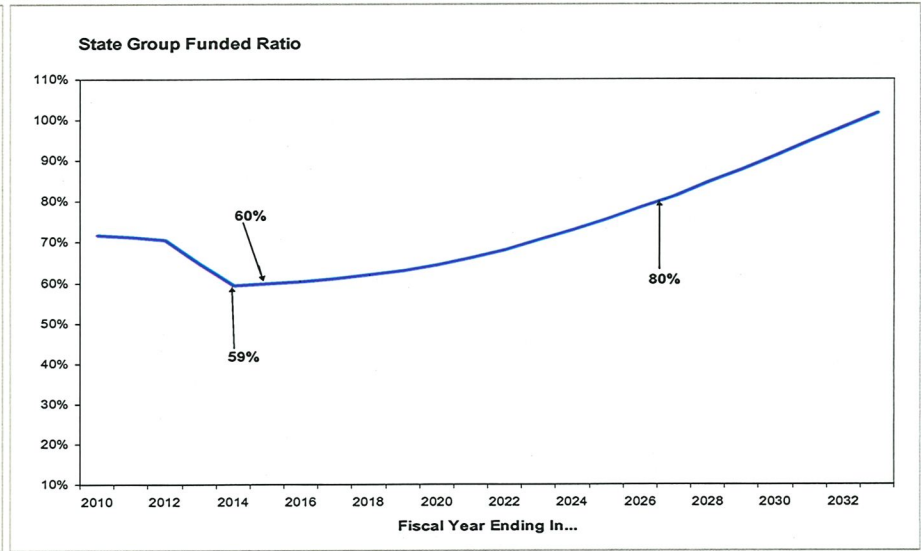
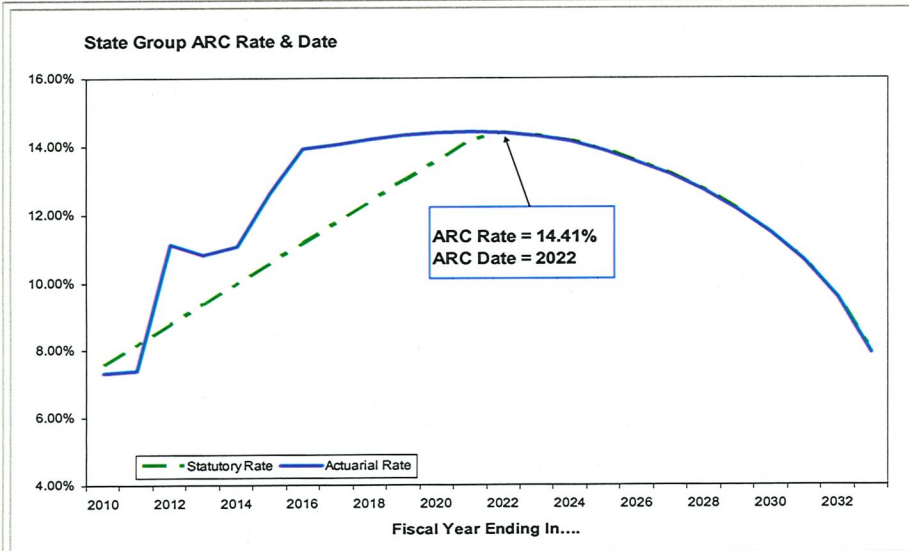
Even assuming an 8% investment return over the next five years:

- The funded ratio of each group will continue to fall.
- Each group's UAL and ARC rate will rise significantly.

	12/31/2007 Valuation		12/31/2008 Valuation	
	Unfunded Actuarial Liability (millions)	Funded Ratio	Unfunded Actuarial Liability (millions)	Funded Ratio
Kansas Public Employees Retirement System (KPERs)				
• <i>State Group</i>	\$451	87%	\$1,002	72%
• <i>School Group</i>	3,862	63%	5,239	52%
• <i>Local Group</i>	941	70%	1,385	59%
Kansas Police and Firemen's Retirement System (KP&F)	284	86%	619	71%
Kansas Retirement System for Judges	15	89%	36	75%
Retirement System Totals	\$5,552	71%	\$8,279	59%

State Group: Baseline Projections

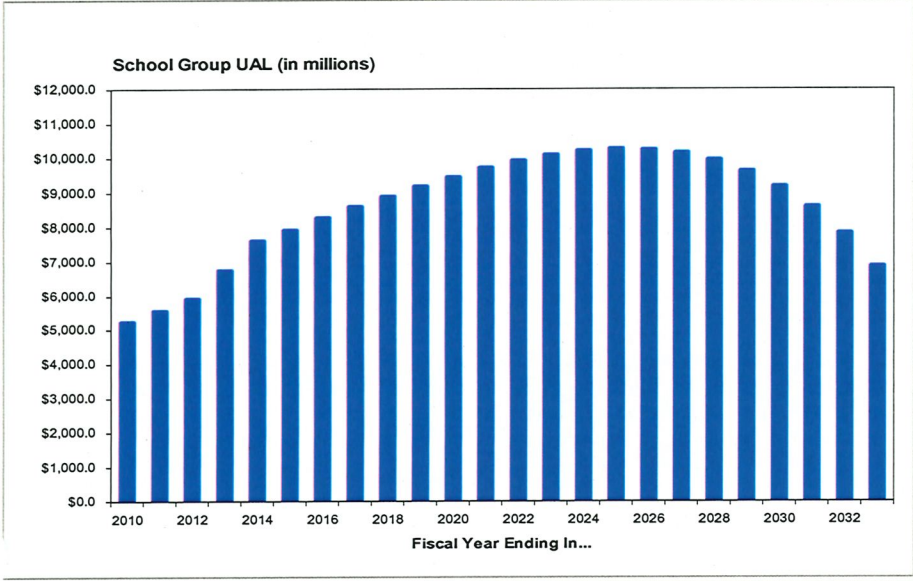
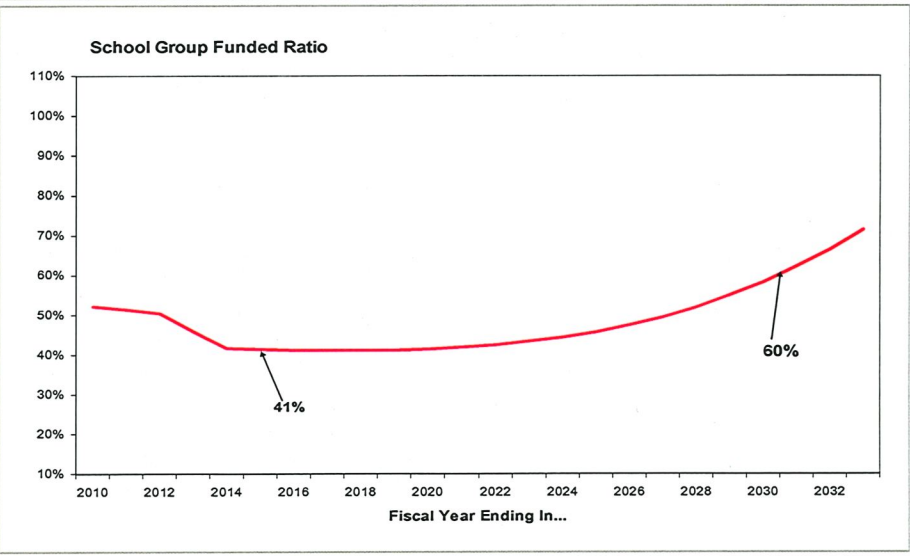
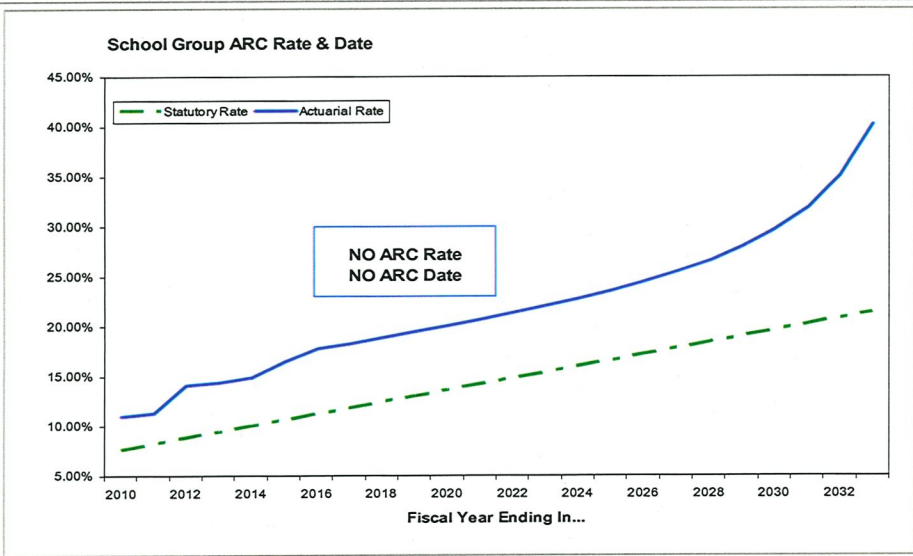
■ No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.



- The projected ARC rate is nearly double the state/school rate paid by state agencies in FY 2010 (7.57%).
- The funded ratio reaches a low of 59% in FY 2014.
- It remains near 60% for an additional 5 years and only reaches 80% in FY 2027.
- The projected UAL rises by nearly 75% to \$1.74 billion in FY 2018.

School Group: Baseline Projections

■ No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.

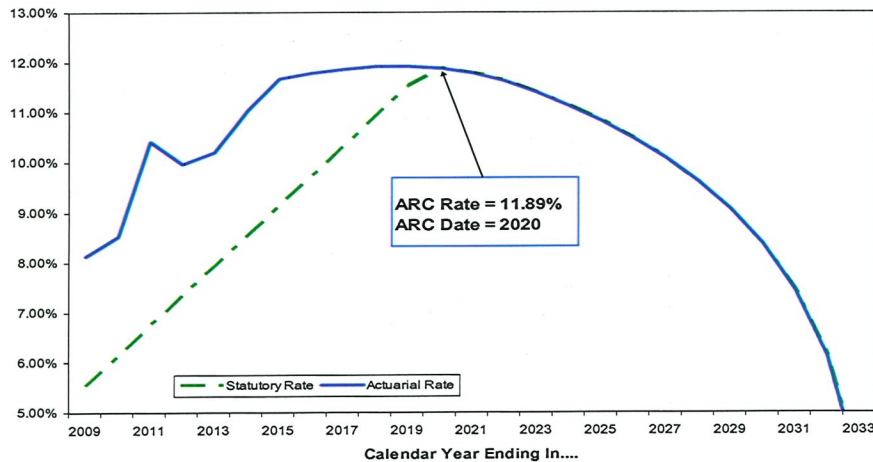


- The School Group is not in actuarial balance by FY 2033.
- The funded ratio reaches a low of 41% in FY 2015 and remains at 41 to 43% for 9 years.
- The funded ratio does not reach 60% until FY 2031 and only reaches 80% in FY 2035.
- The projected UAL nearly doubles to \$10.3 billion in FY 2025.

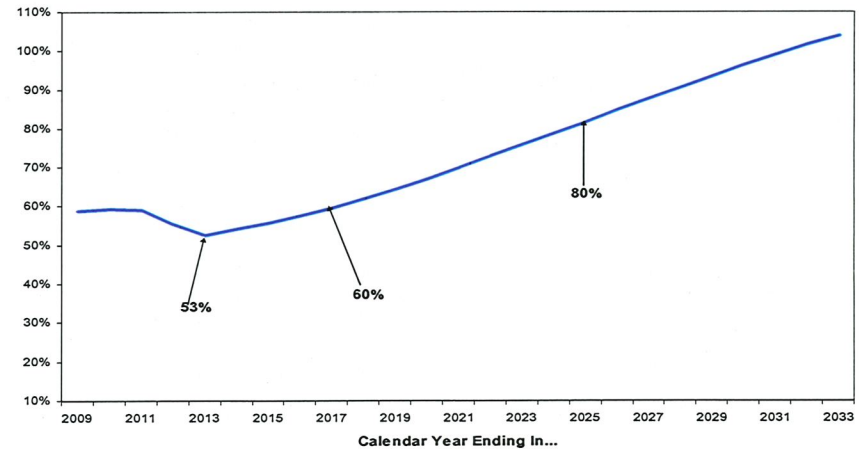
Local Group: Baseline Projections

▪ No change in the .6% employer rate increase cap. Assumes average annual investment return of 8%.

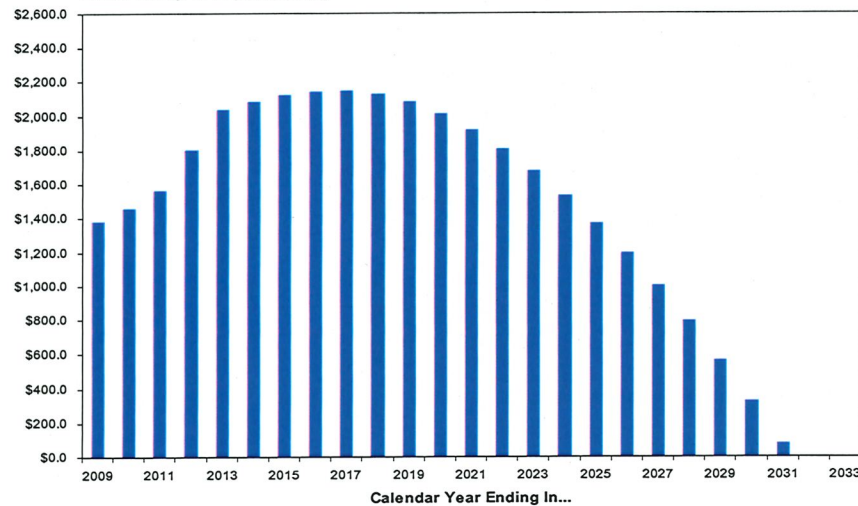
Local Group ARC Rate & Date



Local Group Funded Ratio



Local Group UAL (in millions)



- The Local Group ARC rate is projected to double to 11.89% by CY 2020.
- Its projected funded ratio will fall to 53% by CY 2013, regaining 60% by CY 2017. The funded ratio is projected to reach 80% by CY 2025.
- The UAL is projected to increase by 55.4% to \$2.15 billion by CY 2017.

Funding Solution Options

KPERS modeled a series of funding solution options that were presented to the Joint Committee on Pensions, Investments and Benefits at its three meetings this interim. These options included:

- Increases to the statutory employer contribution rate cap.
- Increases in employee contribution rates.
- Changes in the statutory multiplier for future service.
- Bond issues in lieu of the statutory employer contribution cap increase.
- Various combinations of employer and employee rate increases and multiplier changes.
- Creating a new mandatory defined contribution plan for future employees.

An overview of the key options considered by the Committee follows.

Defined Contribution Options

KPERS made a presentation that provided background on other states' defined contribution (DC) plans, compared the attributes of defined benefit (DB) and DC plans, and modeled the financial impact and income replacement of several DC options.

- If a mandatory DC plan was provided to all future employees, those hired after the plan's effective date would constitute a new tier of members (Tier 3).
- For those members of the DB plan hired before the new plan takes effect (Tiers 1 and 2), the current \$8.3 billion unfunded actuarial liability (UAL) must still be paid off through employer contributions on the payroll of all three Tiers.
- Therefore, the State's contributions would consist of –
 - Employer contributions on the payroll of the closed Tiers 1 and 2 of the DB plan.
 - Employer contributions to the Tier 3 DC plan as a percent of payroll for these members.
 - Contributions on the Tier 3 payroll toward paying off the UAL of the closed Tiers 1 and 2 of the DB plan.

Defined Contribution Options (Continued)

- The modeling of options similar to the Regents DC plan (8.5% employer contribution and 5.5% employee contribution) and a basic DC plan (3.0% employer contribution and 6.0% employee contribution) found:
 - Adding a Regents-type DC plan as a Tier 3 would either result in total State outlays significantly greater than the current DB plan alone or, if the State's costs are held to the same level, a substantial increase in the UAL and deterioration of the funded ratio for Tiers 1 and 2 of the DB plan.
 - Adding a basic DC option as a Tier 3 would result in State outlays close to the current DB plan alone and a similar UAL and funded ratio for the closed DB plan. However, the trade-off is a significantly lower benefit level for the Tier 3 DC plan.

Defined Benefit Options

At the three Joint Committee meetings, KPERS has presented a series of 16 options for the existing defined benefit plan based on direction and requests from the Committee. These options show the projected impact on the UAL, funded ratio, ARC contribution rate, and State outlays for employer contributions.

To demonstrate the impact and tradeoffs of the various options, four of them are presented for the School group. The basic assumptions of these options are as follows:

- **Option A:**
 - Employer Contribution Rate: Increase cap to 1.0%, effective 7/1/10.
 - Employee Contribution Rate: No change.
- **Option C:**
 - Employer Contribution Rate: Increase cap to 1.0%, effective 7/1/10.
 - Employee Contribution Rate: Increase by 0.5% for both Tiers 1 and 2 in each of four years, beginning 7/1/10.

Defined Benefit Options (Continued)

- **Option J:**

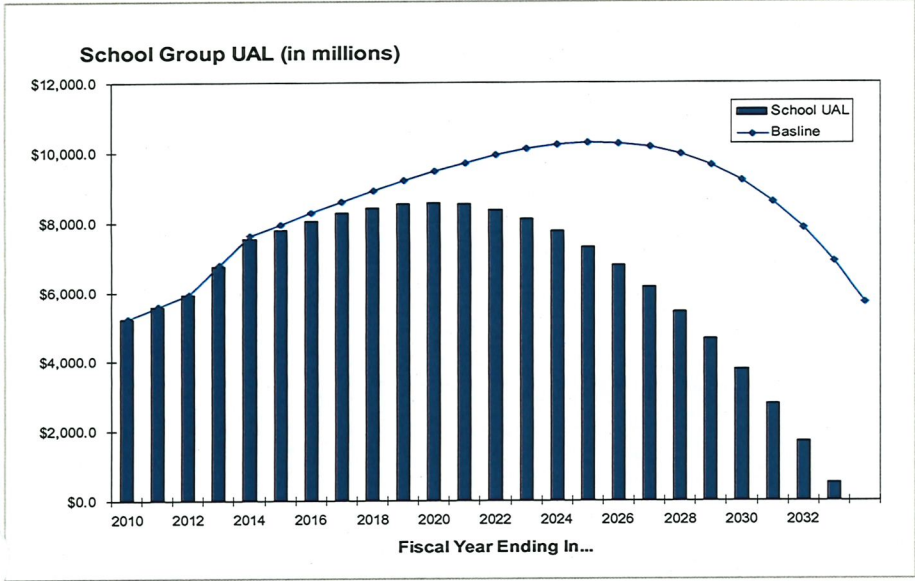
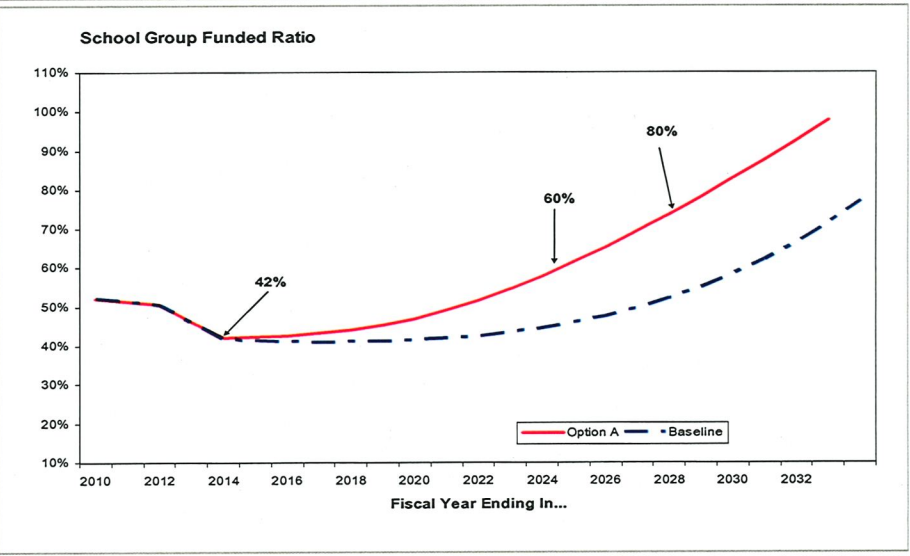
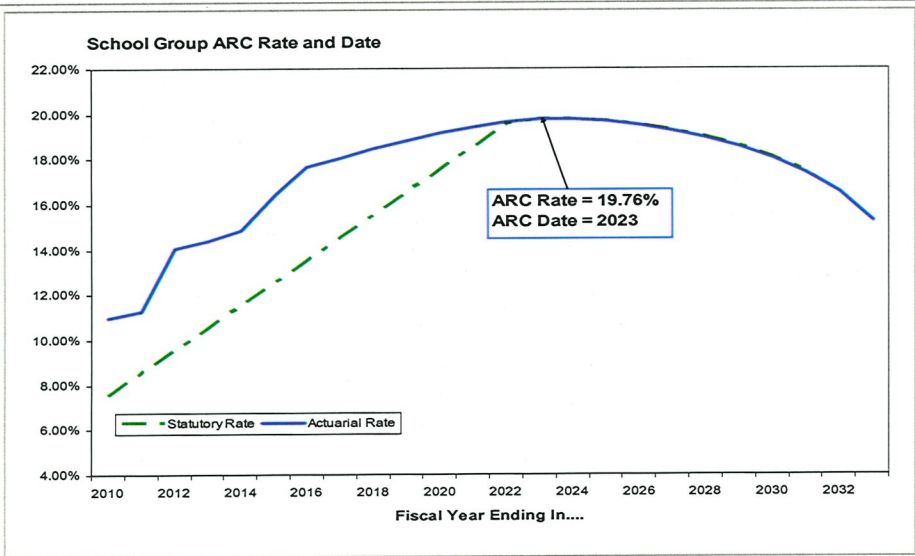
- Employer Contribution Rate: Increase cap to 0.8%, effective 7/1/11, and to 1.0% effective 7/1/11.
- Employee Contribution Rate: Increase by 0.5% for both Tiers 1 and 2 in each of four years, beginning 7/1/11.
- Benefit Multiplier: Increase multiplier for future service only for both Tiers 1 and 2, effective 7/1/11.

- **Option P:**

- Employer Contribution Rate: Cap remains at 0.6%. Net bond proceeds of \$590 million made as employer contribution in FY 2011 to match present value of employee contribution increase.
- Employee Contribution Rate: Increase for both Tiers by 1.0%, effective 7/1/11.

School Group: Option A

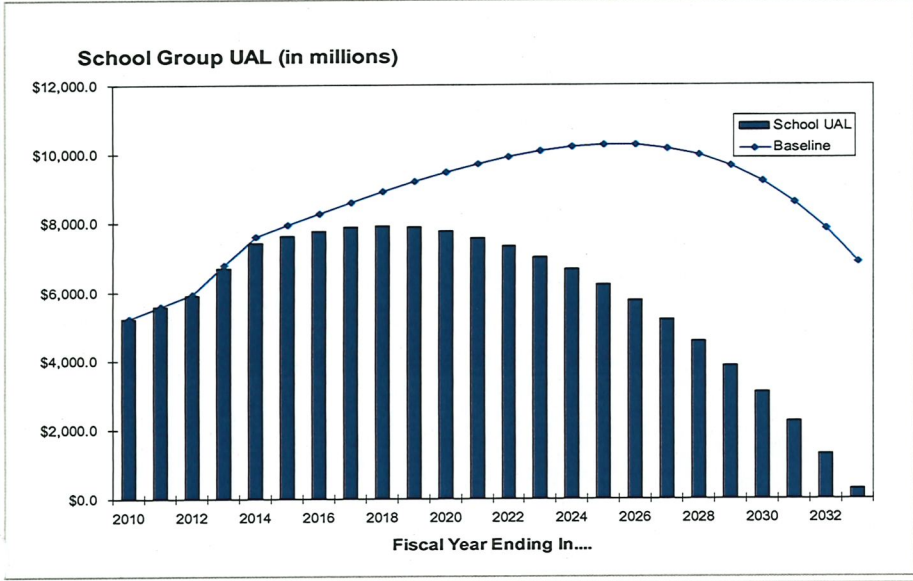
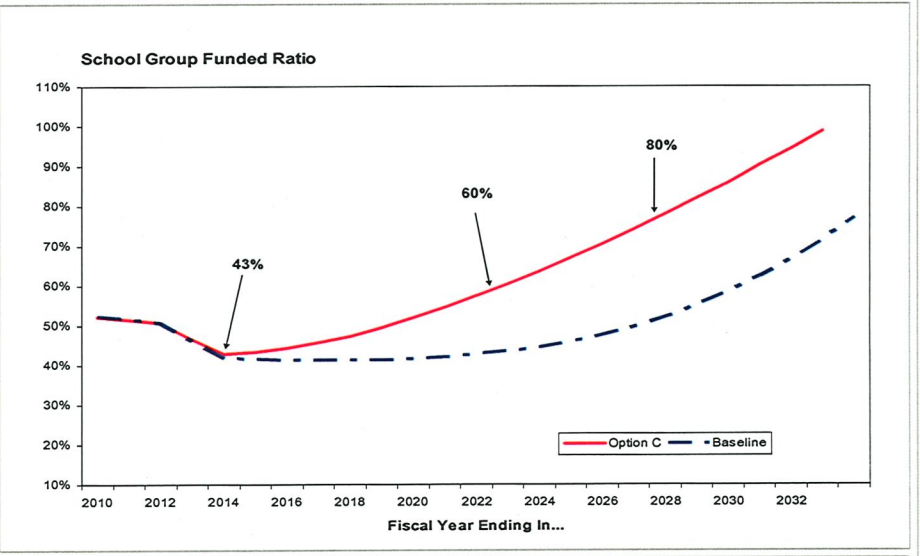
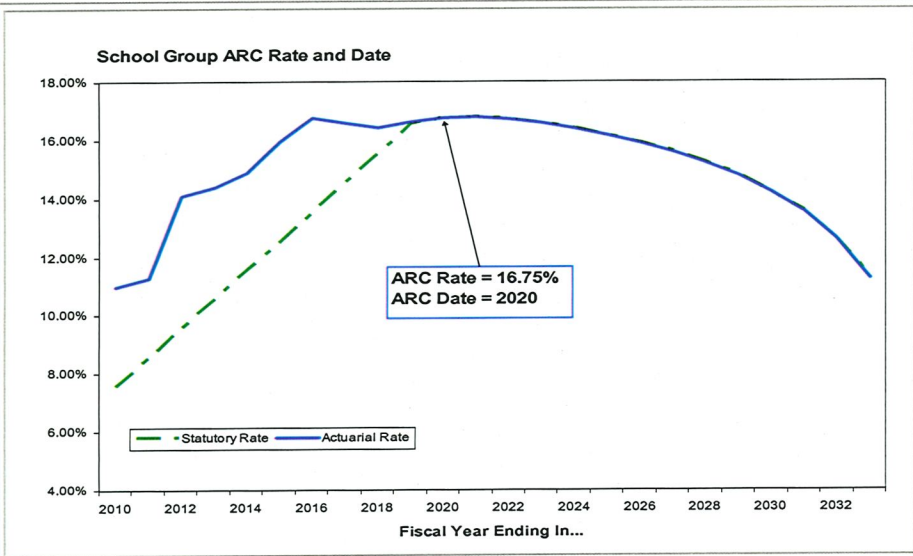
▪ Raise cap on employer rate increases to 1% in FY '11. Assumes average annual investment return of 8%.



- A 1% cap on employer rate pulls the School Group back into actuarial balance by FY 2023, but at a rate of 19.76%.
- The funded ratio is depressed for an extended period of time, falling to 42% in FY 2014 and remaining below 50% for another 7 years.
- The funded ratio continues increasing slowly to 60% in 2025 and to 80% by FY 2030.
- The projected UAL peaks at \$8.6 billion in FY 2020 – five years earlier and \$1.7 billion less than the Baseline.

School Group: Option C

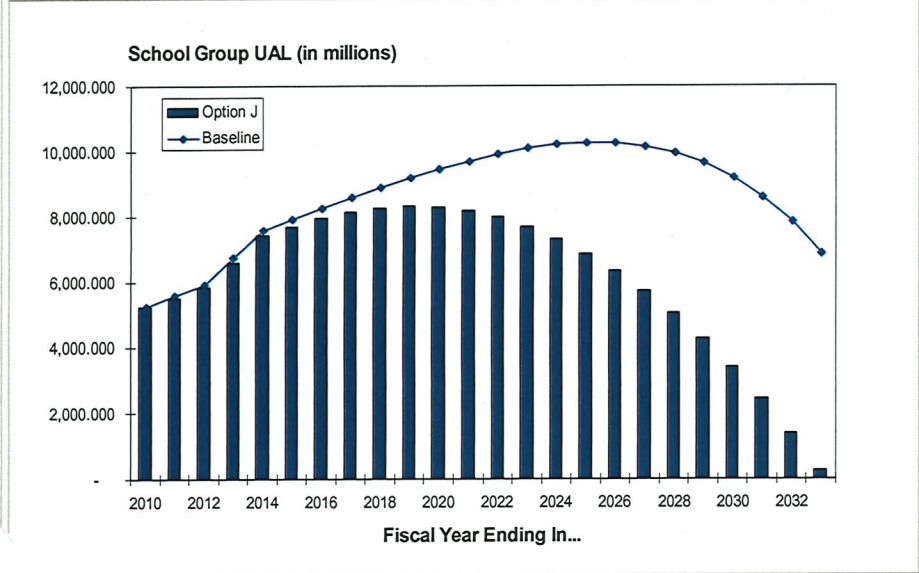
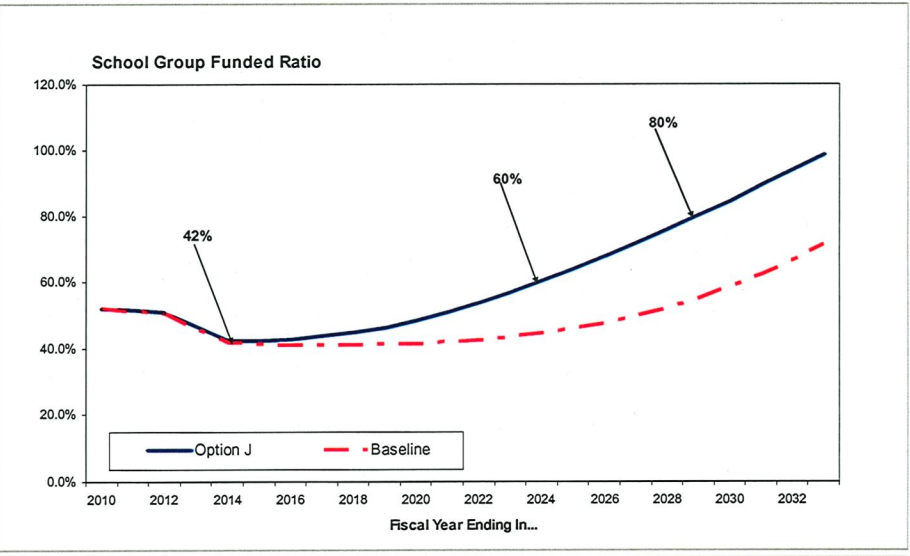
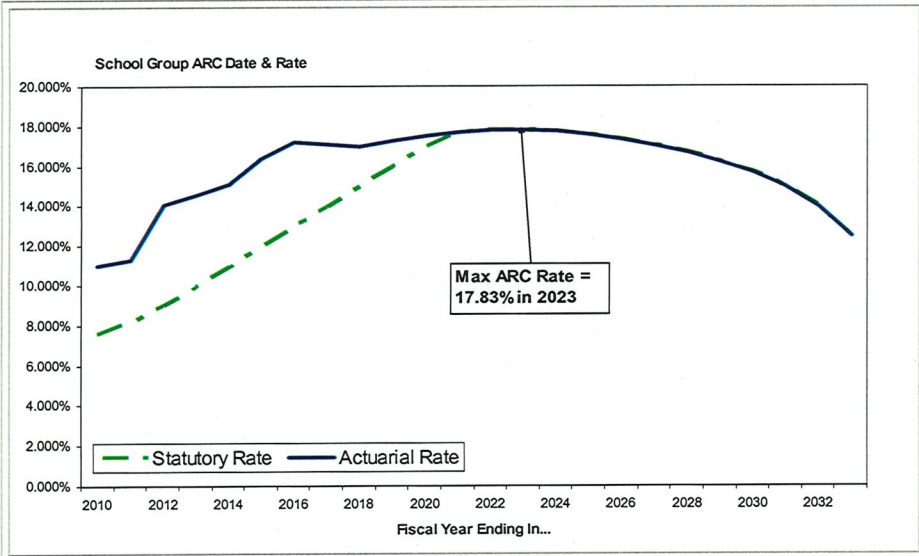
▪ Raise cap on employer rate increases to 1% in FY '11. Increase member contributions by .5% in each of four years, beginning FY 2011. Assumes average annual investment return of 8%.



- The ARC rate and date drops from 19.76% in FY 2023 with the 1% cap to 16.75% in FY 2020 if a phased-in 2% member contribution increase is added.
- The low point of the funded ratio projections is similar to the 1% cap option. A 60% funded ratio is reached in FY 2023 – two years earlier than the 1% option. An 80% funded ratio is projected in FY 2029.
- With the additional member contributions, the projected UAL peaks seven years earlier – in FY 2018 at \$7.9 billion or \$2.4 billion less than the Baseline.

School Group: Option J

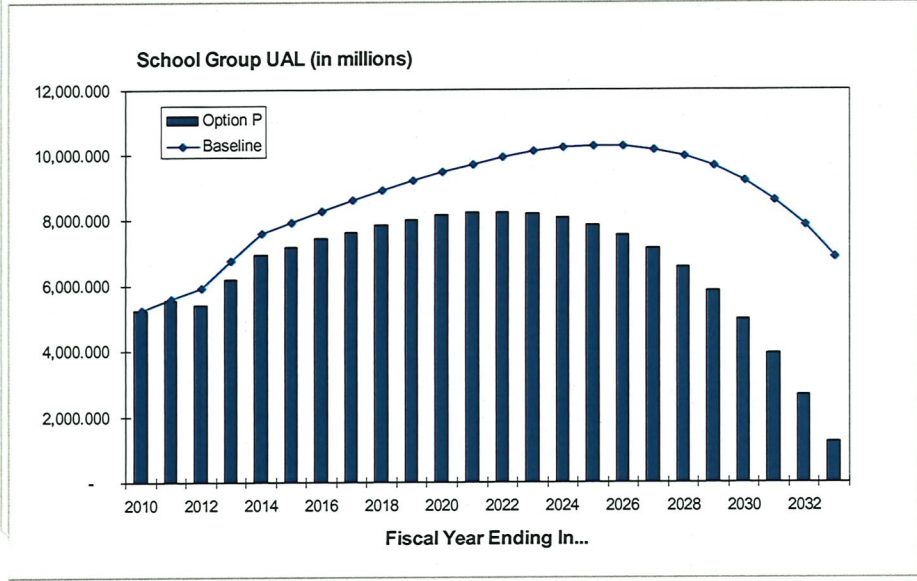
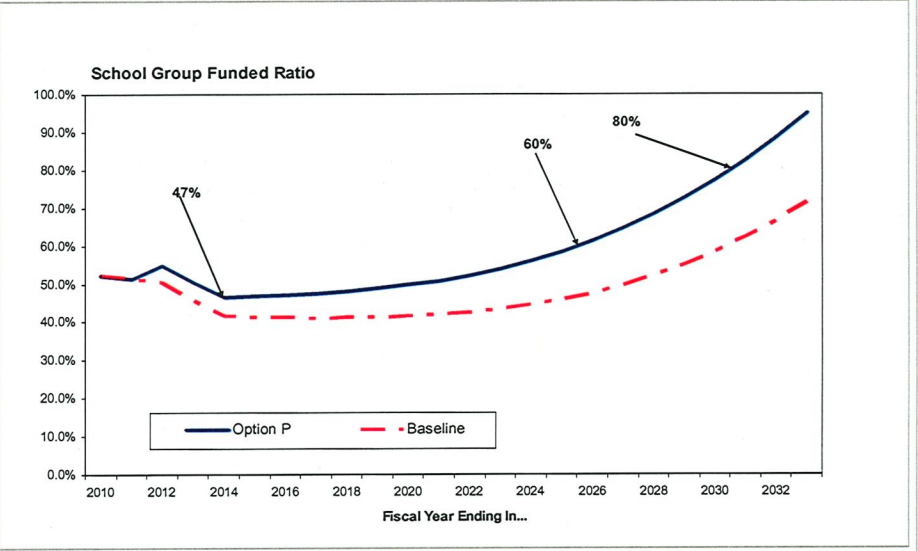
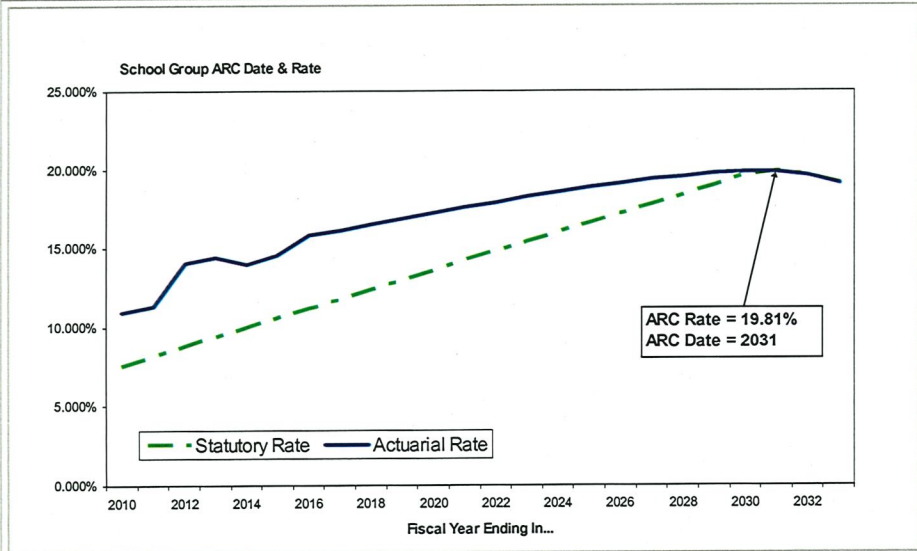
▪ Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning in FY '12 . Increase Tiers I & 2 multiplier to 1.85% for future service. Assumes average annual investment return of 8%.



- The projected ARC rate rises to a maximum of 17.83% in FY 2023 – two years later and 1% higher than Option C.
- The funded ratio falls to a low of 42.4% in FY 2014 and remains below 50% for a total of eight years.
- The funded ratio reaches 60% in FY 2024 and 80% by FY 2029 – similar to Option C.
- The projected UAL peaks at \$8.34 billion in FY 2019 – six years earlier and \$1.94 billion less than the Baseline.

School Group: Bond Option P

Issue bonds with proceeds of \$590 million in 2010 with payments phased in, beginning FY '13. Raise Tier I & 2 employee rate by 1.0% in FY '12. Assumes average annual investment return of 8%.



- The projected ARC rate rises to a maximum of 19.81% in FY 2031. The Baseline does not achieve ARC.
- The funded ratio falls to a low of 46.7% in FY 2014, 5.6% higher than the Baseline.
- The funded ratio reaches 60% in FY 2026 and 80% by FY 2031.
- The projected UAL peaks at \$8.23 billion in FY 2022 – \$2 billion less than the Baseline.

Effect on State Contributions

Option A* Estimated Effect on the State and School Group (in millions)

	<u>0.6% Cap</u>	<u>Option A</u>	<u>Additional ER Contributions</u>
FY 2011 Increase in Employer Contributions	\$39.35	\$57.64	\$18.29
FY 2011 Total Employer Contributions	\$373.57	\$391.86	\$18.29
FY 2015 Increase in Employer Contributions	\$44.80	\$67.48	\$22.68
FY 2015 Total Employer Contributions	\$538.96	\$640.95	\$101.99
Total Employer Contributions: FY 2010-2033	\$23,977.65	\$25,492.03	\$1,514.38

Option C** Estimated Effect on the State and School Group (in millions)

	<u>0.6% Cap</u>	<u>Option C</u>	<u>Additional ER Contributions</u>
FY 2011 Increase in Employer Contributions	\$39.35	\$57.64	\$18.29
FY 2011 Total Employer Contributions	\$373.57	\$391.86	\$18.29
FY 2015 Increase in Employer Contributions	\$44.80	\$67.48	\$22.68
FY 2015 Total Employer Contributions	\$538.96	\$640.95	\$101.99
Total Employer Contributions: FY 2010-2033	\$23,977.65	\$21,936.48	(\$2,041.17)

*Raise cap on employer rate increases to 1.0% in FY 2011.

**Raise cap on employer rate increases to 1% in FY '11. Increase employee rate by .5% for both Tier 1 and 2 in each of four years, beginning FY 2011.

Effect on State Contributions

Option J* Estimated Effect on the State and School Group (in millions)

	<u>0.6% Cap</u>	<u>Option J</u>	<u>Additional ER Contributions</u>
FY 2012 Increase in Employer Contributions	\$38.13	\$47.52	\$9.39
FY 2012 Total Employer Contributions	\$411.70	\$421.09	\$9.39
FY 2015 Increase in Employer Contributions	\$44.80	\$66.62	\$21.82
FY 2015 Total Employer Contributions	\$538.96	\$610.35	\$71.39
Total Employer Contributions: FY 2010-2033	\$23,977.65	\$23,006.01	(\$971.64)

*Raise cap on employer rate increases to 0.8% in FY '12 and 1.0% in FY '13. Raise Tiers I & 2 employee rate by 0.5% in each of four years, beginning in FY '12. Increase Tiers I & 2 multiplier to 1.85% for future service.

Option P: State Contributions and Debt Service

Fiscal Year	Baseline*		Option P: \$590 Million Bond Issue*			Total Increase in Annual State Outlays*
	State/School Current Contributions (0.6% Cap)	Annual Increase in Contributions	Option P: State/School Contributions (0.6% Cap)	SGF Debt Service Payments	Total State Payment	
2011	\$ 373.57	\$ 39.35	\$ 373.57	\$ -	\$ 373.57	\$ 39.35
2012	\$ 411.70	\$ 38.13	\$ 411.70	\$ -	\$ 411.70	\$ 38.13
2013	\$ 451.81	\$ 40.11	\$ 451.81	\$ 36.69	\$ 488.50	\$ 76.80
2014	\$ 494.17	\$ 42.36	\$ 494.17	\$ 36.69	\$ 530.86	\$ 79.05
2015	\$ 538.96	\$ 44.79	\$ 538.96	\$ 58.36	\$ 597.32	\$ 103.15
2020	\$ 805.78	\$ 59.76	\$ 805.78	\$ 58.36	\$ 864.14	\$ 118.12
2025	\$ 1,164.48	\$ 80.45	\$ 1,164.48	\$ 58.36	\$ 1,222.84	\$ 138.81
2033	\$ 2,004.25	\$ 126.70	\$ 1,857.81	\$ 58.36	\$ 1,916.17	\$ 185.06
Total	\$ 23,977.65		\$ 23,775.54	\$1,182.24	\$ 24,957.78	

* In millions

Observations Regarding Options

A review of all options KPERs has developed illustrates various trade-offs and limitations.

- ARC rates for all KPERs groups will rise over a period of years under all options.
 - The School Group is out of actuarial balance without further action.
 - While all options bring the School Group into actuarial balance, many are at very high rates that may not be sustainable.
- Increases in employer contributions, while necessary, will not substantially improve the declining funded ratio for a number of years until compounding of investment earnings has the opportunity to grow the new assets relative to liabilities.
- A funded ratio of 80% and rising is generally considered to be a “healthy” level for public pension plans.
 - Under the options presented to the Committee, both the State and School Groups will remain below 80% funded for much of the remainder of the amortization period ending in FY 2033.

Observations Regarding Options (Continued)

- A funded ratio of 60% or below is generally considered to reflect severe underfunding that requires prompt remedial action.
 - Under all options provided to the Committee, the School Group's funded ratio remains below 60% for more than a decade and, with most options, well below 50% for five to nine years.
 - As a result, the School Group will remain particularly vulnerable to further market downturns that result in investment performance below 8%.
- A major injection of money in the early years (such as through pension obligation bonds) or large, sustained investment returns in the near term may improve funded ratios somewhat faster than increases in employer and/or employee increases alone.
- The Joint Committee on Pensions, Investments and Benefits is continuing to meet during this Session to review and refine options, with the goal of making recommendations to the Legislature as a whole.