

HOUSE BILL No. 2298

By Representatives Weigel and Helgerson

2-5

1 AN ACT concerning state moneys; creating the liability reduction fund of
2 the Kansas public employees retirement system and transferring
3 \$1,000,000,000 from the budget stabilization fund to such fund; using a
4 portion of the interest earnings of the liability reduction fund to provide
5 a cost-of-living adjustment to certain retirants of Kansas public
6 employees retirement system and systems thereunder; authorizing
7 certain transfers of such employer contribution savings from the state
8 general fund to the budget stabilization fund; establishing requirements
9 for the expenditure or transfer of moneys from the budget stabilization
10 fund; amending K.S.A. 2024 Supp. 75-6706 and repealing the existing
11 section.
12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 New Section 1. (a) The retirement benefit, pension or annuity
15 payments accruing after June 30, 2025, to each retirant shall be increased
16 by a cost-of-living adjustment in an amount as provided in subsection (b).
17 Such payments shall be paid by the retirement system to the retirant
18 utilizing a portion of the interest earnings of the liability reduction fund
19 created in section 2, and amendments thereto.

20 (b) Each retirant whose date of retirement is on or before July 1,
21 2020, and who is entitled to receive a retirement benefit, pension or
22 annuity payment from the retirement system on July 1, 2025, shall have
23 such retirement benefit, pension or annuity increased by 2% of the
24 retirement benefit, pension or annuity payment in effect on July 1, 2025.

25 (c) As used in this section:

26 (1) "Insured disability benefit recipient" means any person receiving
27 an insured disability benefit under K.S.A. 74-4927, and amendments
28 thereto;

29 (2) "retirement system" means the Kansas public employees
30 retirement system, the Kansas police and firemen's retirement system, the
31 state school retirement system and the retirement system for judges; and

32 (3) "retirant" means any:

33 (A) Person who is a member or special member of the retirement
34 system pursuant to the provisions of K.S.A. 74-4901 et seq., and
35 amendments thereto, and who retired on or before July 1, 2020;

36 (B) person who is a joint annuitant or beneficiary of any member

1 described in subparagraph (A); and

2 (C) insured disability benefit recipient.

3 (d) The provisions of this section shall be a part of and supplemental
4 to K.S.A. 74-4901 et seq., and amendments thereto.

5 New Sec. 2. (a) There is hereby created in the state treasury the
6 liability reduction fund. The purpose of such fund shall be to reduce the
7 unfunded actuarial liability of the Kansas public employees retirement
8 system. Subject to subsection (b), such fund shall be administered by the
9 board of trustees of the Kansas public employees retirement system. All
10 expenditures from the fund shall be made in accordance with appropriation
11 acts upon warrants of the director of accounts and reports issued pursuant
12 to vouchers approved by the chairperson of the board, the executive
13 director of the system or the executive director's designee.

14 (b) The state treasurer shall retain control of the moneys of the
15 liability reduction fund and shall credit such moneys to the budget
16 stabilization fund for the purpose of responding to an extraordinary
17 occasion pursuant to K.S.A. 75-6706, and amendments thereto, when
18 authorized by an appropriation or other act of the legislature or by the state
19 finance council, acting on this matter which is hereby characterized as a
20 matter of legislative delegation and subject to the guidelines prescribed in
21 K.S.A. 75-3711c(c), and amendments thereto. The crediting of such
22 moneys from the liability reduction fund to the budget stabilization fund
23 shall occur only after all other moneys in the budget stabilization fund
24 have been expended or transferred to respond to an extraordinary occasion.

25 (c) The board of trustees shall be responsible for the management and
26 investment of the moneys in the fund and shall discharge the board's duties
27 with respect to such moneys solely in the interests of the liability reduction
28 fund and shall invest and reinvest such moneys and acquire, retain,
29 manage, including the exercise of any voting rights, and dispose of
30 investments of such moneys within the limitations and according to the
31 powers, duties and purposes as prescribed by this section.

32 (d) Moneys specified in subsection (c) shall be invested and
33 reinvested to achieve the investment objective which is preservation of
34 such moneys and accordingly providing that the moneys are as productive
35 as possible, subject to the standards set forth in this section. No such
36 moneys shall be invested or reinvested if the sole or primary investment
37 objective is for economic development or social purposes or objectives.

38 (e) In investing and reinvesting moneys specified in subsection (c)
39 and in acquiring, retaining, managing and disposing of investments of the
40 moneys, the board of trustees shall exercise the judgment, care, skill,
41 prudence and diligence under the circumstances then prevailing, which
42 persons of prudence, discretion and intelligence acting in a like capacity
43 and familiar with such matters would use in the conduct of an enterprise of

1 like character and with like aims by diversifying the investments of the
2 moneys so as to minimize the risk of large losses, unless under the
3 circumstances it is clearly prudent not to do so, and not in regard to
4 speculation but in regard to the permanent disposition of similar moneys,
5 considering the probable income as well as the probable safety of their
6 capital.

7 (f) In the discharge of such management and investment
8 responsibilities the board of trustees may:

9 (1) Contract for the services of one or more professional investment
10 advisors or other consultants in the management and investment of such
11 moneys and otherwise in the performance of the duties of the board of
12 trustees under this section; and

13 (2) arrange for the custody of such moneys as the board of trustees
14 considers advisable with one or more member banks or trust companies of
15 the federal reserve system or with one or more banks in the state of
16 Kansas, or both, to be held in safekeeping by the banks or trust companies
17 for the collection of the principal and interest or other income or of the
18 proceeds of sale.

19 (g) The board of trustees shall require that each person contracted
20 with under subsection (f) to provide services shall obtain commercial
21 insurance that provides for errors and omissions coverage for such person
22 in an amount to be specified by the board of trustees. The amount of such
23 coverage specified by the board of trustees shall be at least the greater of
24 \$500,000 or 1% of the funds entrusted to such person up to a maximum of
25 \$10,000,000. The board of trustees shall require a person contracted with
26 under subsection (f) to provide services to give a fidelity bond in a penal
27 sum as may be fixed by law or, if not so fixed, as may be fixed by the
28 board of trustees, with corporate surety authorized to do business in this
29 state. Such persons contracted with the board of trustees pursuant to
30 subsection (f) and any persons contracted with such persons to perform the
31 functions specified in subsection (c) shall be deemed to be fiduciary agents
32 of the board of trustees in the performance of contractual obligations.

33 (h) (1) Subject to the objective set forth in subsection (c) and the
34 standards set forth in subsection (d), the board of trustees shall formulate
35 and adopt policies and objectives for the investment and reinvestment of
36 such moneys and the acquisition, retention, management and disposition of
37 investments of the moneys. Such policies and objectives shall be in writing
38 and shall include:

39 (A) Specific asset allocation standards and objectives;

40 (B) establishment of criteria for evaluating the risk versus the
41 potential return on a particular investment; and

42 (C) a requirement that all investment advisors, and any managers or
43 others with similar duties and responsibilities as investment advisors, shall

1 immediately report all instances of default on investments to the board of
2 trustees and provide such board of trustees with recommendations and
3 options, including, but not limited to, curing the default or withdrawal
4 from the investment.

5 (2) The board of trustees shall review such policies and objectives,
6 make changes considered necessary or desirable and readopt such policies
7 and objectives on an annual basis.

8 (i) All interest or other income of the investments of the moneys
9 invested under this section, after payment of any management fees, shall
10 be deposited annually in the state treasury to the credit of the liability
11 reduction fund. The board shall prepare a summary report that shall be
12 submitted to the joint committee on pensions, investments and benefits no
13 later than January 1 of the year that follows the end of the fiscal year in
14 which the reporting is required.

15 (j) Such interest or other income of the liability reduction fund shall
16 be considered assets of the Kansas public employees retirement system
17 within the actuary's annual valuation under K.S.A. 74-4907(2), and
18 amendments thereto.

19 (k) The provisions of this section shall be a part of and supplemental
20 to K.S.A. 74-4901 et seq., and amendments thereto.

21 Sec. 3. K.S.A. 2024 Supp. 75-6706 is hereby amended to read as
22 follows: 75-6706. (a) On July 1, 2017, the budget stabilization fund is
23 hereby established in the state treasury. *The legislature shall strive to*
24 *maintain a balance in the budget stabilization fund that is between 15%*
25 *and 20% of the amount of expenditures from the state general fund in the*
26 *preceding fiscal year.*

27 (b) On or before the 10th day of each month commencing July 1,
28 2017, the director of accounts and reports shall transfer from the state
29 general fund to the budget stabilization fund interest earnings based on:

30 (1) The average daily balance of moneys in the budget stabilization
31 fund, for the preceding month; and

32 (2) the net earnings rate of the pooled money investment portfolio for
33 the preceding month.

34 (c) On and after July 1, ~~2017~~ 2025, *except for the transfer authorized*
35 *in subsection (e), no moneys in the budget stabilization fund shall be*
36 *expended pursuant to this subsection or transferred unless the expenditure*
37 *either or transfer has been approved by an appropriation or other act of the*
38 *legislature or has been approved by the state finance council acting on this*
39 *matter which is hereby characterized as a matter of legislative delegation*
40 *and subject to the guidelines prescribed in K.S.A. 75-3711c(c), and*
41 *amendments thereto, in order to respond to the following extraordinary*
42 *occasions:*

43 (1) *Financial emergency caused by a natural disaster;*

1 (2) *deep downturn in state revenues of greater than 10% from the*
2 *immediately preceding fiscal year; or*

3 (3) *crippling healthcare emergency caused by the deaths or illnesses*
4 *of a significant percentage of the state's population.*

5 (d) (1) The legislative budget committee shall study and review the
6 policy concerning the balance of, transfers to and expenditures from the
7 budget stabilization fund. The legislative budget committee study and
8 review shall include, but not be limited to, the following:

9 (A) Risk-based budget stabilization fund practices utilized in other
10 states.

11 (B) The appropriate number of years to review the state general fund:

12 (i) Revenue variances from projections; and

13 (ii) expenditure variances from budgets.

14 (C) The entity to certify the amount necessary in the budget
15 stabilization fund to maintain the appropriate risk-based balance.

16 (D) Plan to fund the budget stabilization fund.

17 (E) Process and circumstances to reach the appropriate risk-based
18 balance, including the amount of risk that is acceptable.

19 (F) Circumstances under which expenditures may be made from the
20 fund.

21 (2) The legislative budget committee may make recommendations
22 and introduce legislation as it deems necessary to implement such
23 recommendations.

24 (e) On July 1, ~~2024~~ 2025, the director of accounts and reports shall
25 transfer ~~all moneys in \$1,000,000,000~~ from the budget stabilization fund to
26 the ~~state general~~ liability reduction fund of the Kansas public employees
27 retirement system.

28 (f) *On July 1, 2026, and each July 1 thereafter, the director of the*
29 *budget, in consultation with the executive director of the Kansas public*
30 *employees retirement system, shall determine and certify to the director of*
31 *accounts and reports the amount of annual employer contributions from*
32 *the state general fund to the Kansas public employees retirement system*
33 *that were the actual cost savings as a result of the transfer of moneys*
34 *authorized in subsection (e) minus the annual cost of the cost-of-living*
35 *adjustment authorized in section 1, and amendments thereto. The baseline*
36 *shall be calculated from the December 31, 2024, actuarial valuation of the*
37 *Kansas public employees retirement system. Upon receipt of each such*
38 *certification, or as soon thereafter as moneys are available, the director of*
39 *accounts and reports shall transfer such certified amount from the state*
40 *general fund to the budget stabilization fund. When the director of the*
41 *budget transmits such certification to the director of accounts and reports,*
42 *the director of the budget shall transmit a copy to the director of*
43 *legislative research.*

1 Sec. 4. K.S.A. 2024 Supp. 75-6706 is hereby repealed.

2 Sec. 5. This act shall take effect and be in force from and after its
3 publication in the statute book.