


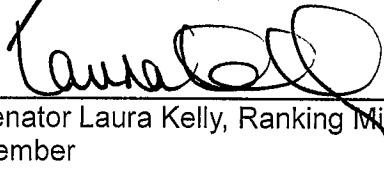
FY 2013

Senate Ways and Means Subcommittee

Kansas Public Employees Retirement System



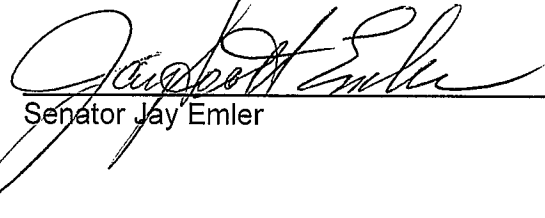
Senator John Vrtil, Chair



Senator Laura Kelly, Ranking Minority  
Member



Senator Ruth Teichman



Senator Jay Emler

Senate Ways and Means

Date: 03-07-2012

Attachment: 1

## House Budget Committee Report

**Agency:** Kansas Public Employees Retirement System

**Bill No.** 2760

**Bill Sec.** 15

**Analyst:** Steiner

**Analysis Pg. No.** 88

**Budget Page No.** 64

Expenditure Summary	Agency Request FY 2013	Governor Recommendation FY 2013	House Budget Committee Adjustments
<b>Operating Expenditures:</b>			
State General Fund	\$ 3,208,993	\$ 3,208,993	\$ 0
Other Funds	49,554,204	49,037,199	378,063
Subtotal	<u>\$ 52,763,197</u>	<u>\$ 52,246,192</u>	<u>\$ 378,063</u>
<b>Capital Improvements:</b>			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>TOTAL</b>	<u><u>\$ 52,763,197</u></u>	<u><u>\$ 52,246,192</u></u>	<u><u>\$ 378,063</u></u>
FTE positions	86.3	84.3	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
<b>TOTAL</b>	<u><u>86.3</u></u>	<u><u>84.3</u></u>	<u><u>0.0</u></u>

### Agency Request

The **agency** requests FY 2013 operating expenditures of \$52,763,197, including \$3,208,993 from the State General Fund. The request is an all funds increase of \$2,303,576, or 4.6 percent, and a State General Fund decrease of \$1,099, from the agency's FY 2012 estimate. The State General Fund appropriation is attributable to the agency servicing both the debt principal and debt interest on the KPERS 13th Check bonds. The all other funds increase is partially attributable to an increase in professional fees associated with KPERS investment activities. Investment expenditures are developed based upon the current market portfolio and as investments have increased there has been a corresponding increase in professional fees associated with the management of KPERS investments.

### Governor's Recommendation

The **Governor** recommends FY 2013 operating expenditures of \$52,246,192. The Governor concurs with the agency's State General Fund appropriation of \$3,208,993. The Governor's recommendation is an all funds decrease of \$517,005, or 1.0 percent, below the agency's FY 2013 request. The decrease is primarily attributable to a reduction in contractual services for professional fees. The Governor recommended a decrease of 2.0 FTE positions from 86.25 to 84.25 and savings of \$138,942 from the Voluntary Retirement Program Reduction.

The **Budget Committee** concurs with the Governor's request with the following adjustments:

1. Add \$378,063, all from the Kansas Public Employees Retirement System Trust Fund, to fund the agency's enhancement request for FY 2013. The agency's FY 2013 enhancement request includes funding for the following:
  - **Implementation of Sen. Sub. for HB 2194.** The agency is requesting \$273,063, all from special revenue funds, for additional expenditure authority for FY 2013 to cover administrative and operational costs associated with the implementation of HB 2194. KPERS will be required to make changes in the areas of information technology, communications, and staffing.
    - **Information Technology** - The **agency** will need to create a new member type, modify all future contributions, employer reporting and benefit calculations, and modify annual statements and website calculators. The agency will also need to make changes to both the employer and member web portals.
    - **Communications** - The **agency** will need to communicate with over 150,000 members and 1,500 employers in order to support the election provision in HB 2194.
  - **Governmental Accounting Standards Board (GASB) 25 and 27.** The agency is required to make changes in pension accounting and financial reporting, due to recommendations issued by the GASB. The agency requests \$105,000 for this enhancement.
2. As a result of the current effort to create a new plan design for retirees and since potential changes could impact the operating budget of KPERS, the Budget Committee recommends that the House Committee on Appropriations review funding for KPERS at Omnibus.

### **Committee Recommendation**

The **Committee** concurs with the Budget Committee's recommendation.

**Senate Subcommittee Report**

**Agency:** Kansas Public Employees Retirement System

**Bill No.** 433

**Bill Sec.** 15

**Analyst:** Steiner

**Analysis Pg. No.** 88

**Budget Page No.** 64

<u>Expenditure Summary</u>	<u>Agency Request FY 2013</u>	<u>Governor Recommendation FY 2013</u>	<u>Senate Subcommittee Adjustments</u>
Operating Expenditures:			
State General Fund	\$ 3,208,993	\$ 3,208,993	\$ 0
Other Funds	49,554,204	49,037,199	517,005
Subtotal	<u>\$ 52,763,197</u>	<u>\$ 52,246,192</u>	<u>\$ 517,005</u>
Capital Improvements:			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 TOTAL	 <u>\$ 52,763,197</u>	 <u>\$ 52,246,192</u>	 <u>\$ 517,005</u>
 FTE positions	 86.3	 84.3	 84.3
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	<u>86.3</u>	<u>84.3</u>	<u>84.3</u>

**Agency Request**

The **agency** requests FY 2013 operating expenditures of \$52,763,197, including \$3,208,993 from the State General Fund. The request is an all funds increase of \$2,303,576, or 4.6 percent, and a State General Fund decrease of \$1,099, from the agency's FY 2012 estimate. The State General Fund appropriation is attributable to the agency servicing both the debt principal and debt interest on the KPERS 13th Check bonds. The all other funds increase is partially attributable to an increase in professional fees associated with KPERS investment activities. Investment expenditures are developed based upon the current market portfolio and as investments have increased there has been a corresponding increase in professional fees associated with the management of KPERS investments.

## **Governor's Recommendation**

The **Governor** recommends FY 2013 operating expenditures of \$52,246,192. The Governor concurs with the agency's State General Fund appropriation of \$3,208,993. The Governor's recommendation is an all funds decrease of \$517,005, or 1.0 percent, below the agency's FY 2013 request. The decrease is primarily attributable to a reduction in contractual services for professional fees. The Governor recommended a decrease of 2.0 FTE positions from 86.25 to 84.25 and savings of \$138,942 from the Voluntary Retirement Program Reduction.

## **Subcommittee Recommendation**

The **Subcommittee** concurs with the Governor's recommendation with the following adjustments:

1. Add \$517,005, all from the KPERS Trust Fund, for the agency's three enhancement requests which include the following:
  - \$273,063 for the administration and operational costs associated with implementation of Senate Substitute for HB 2914. Senate Substitute for HB 2194 will modify either the benefits or contribution rates for all active KPERS members, assuming the 2012 Legislature complete the actions required by the bill to "trigger" the substantive provisions. The changes required include changes to KPERS information technology, communications, and member services staffing;
  - \$105,000 for implementation of the Governmental Accounting Standards Board (GASB) exposure drafts 25 and 27. GASB 25 and 27 change pension accounting and financial reporting for state and local governments. The cost of implementation is attributable to actuarial services.
  - \$138,942 for restoration of positions vacated under the Voluntary Retirement Incentive Program (VRIP), which included 3.0 FTE positions.
2. The Subcommittee would like to note the expenses for professional services related to the work of the KPERS Study Commission are approximately \$309,000. The agency has estimated that the actuarial services provided by Cavanaugh MacDonald are \$172,000 and the legal services provided by Ice Miller are \$77,000. The 2011 Legislature increased the expenditure limitation for KPERS by \$60,000 for FY 2012 to cover costs associated with the KPERS Study Commission; however, the \$60,000 was expended before the work of the KPERS Study Commission was completed.

The Subcommittee recommends that the expenses related to the work of the KPERS Study Commission should be paid by the Kansas Legislature. The Subcommittee recommends that the funding for the expenses incurred by the Commission come from the State General Fund reappropriation in the budget of the Kansas Legislature. Specifically, the first \$309,000 reappropriated from FY 2012 to FY 2013 in the Legislature's budget should be used to pay for the expenses associated with the KPERS Study Commission.

3. The Subcommittee recommends the Senate Committee on Ways and Means request a Legislative Post Audit study on the expense overrun and who authorized the additional expenses for the KPERS Study Commission.

### Senate Subcommittee on KPERS Issues

2012 House Bill 2461, which was introduced by the agency, contains changes to the statutory language governing alternative investments. Under current law the statutory restriction on alternative investments is 1.0 percent. House Bill 2461 would increase the limitation to 5.0 percent. The increase would allow annual net new investments (contributions minus distributions) in the alternative investment portfolio to not exceed 5.0 percent of the total market value of the investment assets of the retirement system. The 5.0 percent annual limitation would be measured from the end of the preceding calendar year.

The House Committee of the Whole amended the original bill to include a limitation on the total amount of alternative investments, which is a maximum of 15.0 percent of the total assets. It should be noted that the House Committee amended the bill to include a new definition of alternative investments.

As a result of the amendment added by the House Committee of the Whole, KPERS requested that the bill be amended to include language which will assure that KPERS will not have to divest of alternative investment holdings if the 15.0 percent limitation is breached as the result of changes in market value.

The only conferee who testified in favor of the bill was KPERS. There were no conferees who appeared as neutral or in opposition.

The **Subcommittee** recommends that House Bill 2461 be passed favorably as amended.