Landon State Office Building
900 SW Jackson Street, Room 504
Topeka, Kansas 66612

Kansas

phone: 785-296-2436
fax: 785-296-0231
budget.director@budget.ks.gov

Jon Hummell, Interim Director

Division of the Budget

Sam Brownback, Governor

March 20, 2014

The Honorable Steven Johnson, Chairperson
House Committee on Pensions and Benefits
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2742 by House Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2742 is respectfully submitted to your committee.

On or after July 1, 2014, HB 2742 would allow the Department of Corrections to affiliate with the Kansas Police and Firemen's Retirement System (KP&F) for the purposes of adding security officers as members of KP&F for all future service on and after the January 1 following application by the Department. Currently, security officers have their own retirement groups. Security officers who are vested under Corrections Groups and become members of KP&F would have retirement benefits computed under Corrections Groups requirements if employment is terminated prior to their attaining vested benefits under KP&F. The Division of the Budget and the Governor must include the amount required to satisfy the employer's obligation as certified by the KPERS Board of Trustees in the annual budget. The Department of Corrections must pay to the system the amount sufficient to satisfy the obligation.

According to KPERS and the consulting actuary, moving security officers to KP&F would result in a net increase to KP&F plan costs of $5,966,552 for FY 2016. A decrease in the employer contribution rate of 1.56 percent would result in a reduction of $786,035 for current KP&F employers. Of the total reduction, $251,531 would be from the State General Fund based on the percentage of State General Fund resources budgeted for salaries and wages for other state KP&F employers (excluding the Department of Corrections).

However, Department of Corrections employer contributions would increase due to the difference between the KPERS correctional employer contribution rate and KP&F employer contribution rates. This increase would result in additional employer contributions from the Department of Corrections of $6.8 million for FY 2016. Of the expenditures budgeted for salaries and wages for the Department of Corrections in FY 2015, 96.7 percent is funded from the State General Fund. If this percentage is used, additional State General Fund resources of approximately $6.6 million in FY 2016 would need to be appropriated to the Department of

Corrections to satisfy the transfer requirements. If approval for affiliation occurs prior to January 1, 2015, then the start date for future service could occur as early as the beginning of the second half of FY 2015. This scenario would require additional resources for the Department of Corrections of approximately $3.3 million from State General Fund and $3.4 million from all funds in FY 2015 to satisfy the mid-fiscal year transfer of the Department of Corrections members to KP&F. Increased contributions related to the transfer of Department of Corrections members to KP&F membership are projected to increase long-term costs to the state by a total of $809.3 million. Using the same percentage from above, $782.5 million from the State General Fund could be needed over the long term to implement HB 2742.

After the transfer, no further contributions to KPERS would be made on behalf of the Corrections Group members. However, vested Corrections Group members who transfer to KP&F would remain eligible for a KPERS benefit based on service accrued prior to the transfer. Therefore, any unfunded actuarial liability in KPERS for the Corrections Group members will remain in KPERS and the costs of amortizing that unfunded actuarial liability would be spread across the remaining KPERS state payroll. It is estimated that the transfer of Corrections Group members to KP&F would result in small decrease of approximately $36.0 million to the KPERS state unfunded actuarial liability.

KPERS notes that the bill would decrease the employer contribution rate for all KP&F employers by 1.56 percent, which would directly affect the employer contribution of local employers. The specific fiscal effect for the Local Group was not contained in the actuarial cost study for HB 2742 and is unknown at this time.

Administrative costs would be incurred from implementing the transfer of Corrections Group members to KP&F. This would include making changes to computer systems, member education and publications, and project management services. KPERS states it would manage these additional costs within the current expenditure authority. Any fiscal effect associated with HB 2742 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

Jon Hummell,
Interim Director of the Budget

cc: Faith Loretto, KPERS
Jeremy Barclay, Corrections