SESSION OF 2013

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2403

As Amended by House Committee on Pensions and Benefits

Brief*

HB 2403, as amended, would authorize the issuance of not more than $1.5 billion in revenue bonds, at an interest rate of not more than 5.0 percent, for the purpose of paying the net bond proceeds to the Kansas Public Employees Retirement System (KPERS) and for reducing the unfunded accrued pension liability of the KPERS state and school groups of public employees.

The bill would delegate to the State Finance Council (SFC) the final review and approval of any bond resolution authorizing the issuance of revenue bonds, and of the terms and costs of any bond issues to be offered by the Kansas Development Finance Authority (KDFA).

The bill also would provide for an offsetting reduction in the annual employer contribution rate for the combined KPERS state and school groups during the year in which bond repayments would begin between July 1, 2014, and June 30, 2015. The offsetting reduction to be made in KPERS employer contribution payments would be the amount of the bond debt service payments, calculated as a proportionate rate reduction made in the statutorily prescribed FY 2015 participating employer rate for the combined KPERS state and school groups.

The bill would be in effect upon publication in the *Kansas Register.*

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

Background

The Kansas Legislature previously authorized "pension obligation bonds" for reducing a portion of the KPERS unfunded accrued pension liability. The 2003 Legislature approved up to $500.0 million in revenue bonds (referred to as "pension obligation bonds" when used to reduce pension debt by pledging other state revenues for bond repayments). Those revenue bonds were issued in order to partially reduce the unfunded liability for the combined KPERS state and school groups. The SFC was delegated to approve the actual bonds issued by the KDFA, as is the case in 2013 HB 2403, and also to approve the terms and costs of any bonds issued.

In January of 2004, a $500.0 million bond issue, with a multiyear interest rate of 5.36 percent for 30-year taxable bonds, was approved by the SFC, with $440.2 million of net bond revenue deposited with KPERS. The SFC determined that the bonds were to be repaid from the State General Fund (SGF). In addition to the KPERS deposit from the bond proceeds, the following distribution occurred: $55.0 million was deposited for capitalized interest payments in order to reduce the initial SGF bond repayment costs in the first three years; $2.2 million was paid for bond insurance; $1.6 million was paid for the underwriter's discount; and other issuance costs of slightly less than $1.0 million were paid.

Conferees appearing in support of 2013 HB 2403 included former Senator Dave Kerr, a representative of the KPERS Board of Trustees, and a former members of the KPERS Board of Trustees who also served in 2003 as the Chairperson of the Joint Committee on Pensions, Investments and Benefits which recommended the first bond issue for $500.0 million in 2004. Also providing written support for the bill was the State Treasurer, who also is a member of the KPERS Board of Trustees.

Providing neutral testimony about the proposed bonds were the Executive Director of KPERS, the Vice President of the KDFA, and a representative of the Kansas Association of Retired School Personnel.

No one testified in opposition to the bill.

The House Committee amended the bill by adding several technical changes suggested by the Office of the Revisor of Statutes, and also inserted a provision that would reduce the statutory FY 2015 employer contribution rate for the combined KPERS state and school groups, to be offset by the amount of the first-year bond debt service payments. The KPERS Actuary estimated a rate reduction of 1.85 percent in the statutory requirement based on estimated first-year bond repayments of approximately $86.0 million.

The fiscal note for the original bill prepared by the Division of the Budget indicated under current law, the total employer contributions to KPERS from FY 2013 to FY 2034 are estimated to total $20.9 billion. KPERS estimated the addition of $1.5 billion toward the UAL would reduce employer contributions over the same time period to $17.3 billion, for savings of approximately $3.7 billion. Under current law, the estimated maximum employer contribution rate for the KPERS state and school groups is projected to be 17.26 percent. The bill would reduce that maximum rate to 14.11 percent as a result of adding bond money for investment purposes and earning the actuarial assumed rate of interest on KPERS investments.

KPERS provided additional fiscal information about HB 2403, as amended, by an offsetting reduction in employer contributions that would occur in the first year bond repayments would begin. KPERS estimated that in the first year, the reduction in the statutory employer contribution rates for the state and school groups would be approximately 1.85 percent if the bond payments were approximately $86.3 million.

KPERS reported employer contributions to KPERS from FY 2013 to FY 2034 are estimated to total $20.9 billion under current law and the statutory formula for employer contribution rates. KPERS estimated the addition of $1.5 billion in bond revenue applied to the UAL, and the offset in employer contributions by the cost of first-year bond payments would reduce employer contributions over the same time period to $17.5 billion, for savings of approximately $3.2 billion. Under current law, the estimated maximum employer contribution rate for the KPERS state and school groups is projected to be 17.26 percent. The bill, as amended, would reduce that maximum rate to 14.29 percent as a result of adding bond money for investment purposes and earning the actuarial assumed rate of interest on KPERS investments.

KPERS noted the likely savings, if investment earnings assumptions are met over the term of the 30-year bonds, could be $744.16 million after factoring in the adjusted employer contributions, bond proceeds, and bond debt service.