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

Kansas
Division of the Budget

Phone: (785) 296-2436
Fax: (785) 296-0231
shawn.sullivan@budget.ks.gov

Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

February 26, 2015

CORRECTED

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

Dear Representative Johnson:

SUBJECT: Corrected Fiscal Note for HB 2095 by House Committee on Pensions and Benefits

In accordance with KSA 75-3715a, the following corrected fiscal note concerning HB 2095 is respectfully submitted to your committee.

HB 2095 would authorize the issuance of $1.5 billion in bonds for the Unfunded Actuarial Liability (UAL) of the Kansas Public Employee Retirement System (KPERS) State/School Group. The Kansas Development Finance Authority would be authorized to issue one or more revenue bonds not to exceed $1.5 billion plus the costs of issuance. The bonds would be subject to the approval of the State Finance Council and a maximum 5.0 percent interest rate on the bonds.

The bill would also require adjustments to the FY 2017 State/School Group employer contribution rate. The rate would be reduced by the amount of the debt service payment in FY 2017. The existing statutory cap of 1.2 percent would apply to future fiscal years.

According to KPERS and a cost study completed by KPERS' consulting actuary, HB 2095 could create long-term KPERS State/School Group employer contribution savings totaling $2.8 billion from all funding sources. Based on budget system expenditure data, the amount of State General Fund resources used to finance state and school employer contribution payments is approximately 85.0 percent. If this percentage is applied to the long-term savings figure, reduced employer contributions totaling $2.4 billion from the State General Fund could be created by the bill. In the original fiscal note, a metric of 46.0 percent was used to estimate the long term fiscal effect on the State General Fund. This percentage was based on total budgeted statewide salaries and wages data. The revised percentage is a more accurate measure of the amount of State General Fund dollars used to finance KPERS State/School Group retirement costs.

The near-term fiscal effect accounts for fiscal year rate adjustment assumptions that were included in the cost study. For FY 2015, the rate reflects the mid-year reduction to 8.65 percent as a result of the Governor's allotment plan. The FY 2016 rate would return to the statutory rate of 12.37 percent as certified by the KPERS Board of Trustees based on the December 12, 2012 valuation. The FY 2017 rate would be reduced by 1.94 percent or the cost of the debt service payment on the bonds, which is estimated to be $90.3 million annually. The 1.2 percent statutory cap that is in current law would be applied to the FY 2018 rate. The FY 2019 contribution rates would be established by the December 31, 2015 valuation and would reflect the receipt of the bond proceeds.

For FY 2015, it is estimated that savings of $52.1 million from the State General Fund and $58.0 million from all funds would result from the budget plan that reduces the employer contribution rate for the last six months of the fiscal year. Excluding FY 2015, savings from the State General Fund are not expected to occur until FY 2019 under HB 2095. It is assumed that the debt service would be paid from the State General Fund. Any fiscal effect associated with HB 2095 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Faith Loretto, KPERS
Bonnie Gauntt, KDFA