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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

February 26, 2015

CORRECTED

The Honorable Jeff King, Chairperson
Senate Select Committee on KPERS
Statehouse, Room 341-E
Topeka, Kansas 66612

Dear Senator King:

SUBJECT: Corrected Fiscal Note for SB 168 by Senate Select Committee on KPERS

In accordance with KSA 75-3715a, the following corrected fiscal note concerning SB 168 is respectfully submitted to your committee.

SB 168 would authorize the issuance of $1.0 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 $1.0 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.

According to KPERS and a cost study completed by KPERS' consulting actuary, SB 168 could create long-term KPERS State/School Group employer contribution savings of approximately $1.8 billion from all funding sources. The present value of the savings is approximately $1.0 billion. 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 $1.5 billion from the State General Fund could be created by the bill. The present value of the State General Fund savings is estimated to be $850.0 million. 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 employer contribution rate 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 rates for FY 2016 through FY 2018 would remain at the current statutory rates and be subject to the statutory cap of 1.2 percent. For FY 2019, the contribution rate of 13.10 percent, which would be established by the 12/31/2015 valuation, would reflect the addition of the bond proceeds. Under current law, the FY 2019 rate is projected to be 14.83 percent. The cost study also assumes that funding from the Enhanced Lottery Act Revenues Fund (ELARF) would be included in the total employer contribution amount. Originally, ELARF resources were to be used as additional payments towards the UAL.

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. The cost study indicates potential all funds savings of $39.7 million in FY 2016, $40.6 million in FY 2017, and $41.5 million in FY 2018. However, these amounts reflect the differences regarding the treatment of ELARF in the cost study. Notable savings do not appear to occur until FY 2019 when the valuation will include the addition of the bond proceeds. In that fiscal year, it is estimated that employer contribution savings of $127.5 million from all funding sources could occur. All amounts identified above exclude the debt service payments, which are estimated to be $60.0 million annually and assumed to be paid from the State General Fund. Any fiscal effect associated with SB 168 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Faith Loretto, KPERS