SESSION OF 2015

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2095

As Further Amended by House Committee on Pensions and Benefits

Brief*

HB 2095, as amended, would allow the Kansas Development Finance Authority (KDFA) to issue bonds, in one or more series, in an amount not to exceed $1.5 billion plus all amounts required to pay the costs of issuance. No bonds would be issued without the approval of the State Finance Council, which could meet while the Legislature is in session. The proceeds from the bonds would be applied to the unfunded actuarial pension liability, as directed by the Kansas Public Employees Retirement System (KPERS). Debt service would be payable from appropriations. The interest rate of the bonds, all inclusive cost, would not exceed 5.0 percent. The bonds issued and interest owed would be an obligation of the KDFA and not KPERS. The bonds issued would not be considered a debt or obligation of the State for purposes of the *Kansas Constitution*. The Department of Administration and KDFA would be authorized to enter into contracts to implement the payment arrangement after the bonds are issued.

For FY 2016, the contribution rates for the State-School Group, as certified by the KPERS Board of Trustees, would be reduced in the amount of debt service payment for issued bonds. Under current law, contribution rates for the State-School employers in FY 2016 may not increase by more than 1.1 percent from the previous fiscal year.

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

In the House Committee, testimony in favor of the bill was provided by the State Treasurer and other representatives of the KPERS Board of Trustees. Assuming the proceeds of the bonds were received by the end of calendar year 2015, the funded ratio would increase from 60.7 percent to 68.8 percent. The unfunded actuarial liability would be estimated to decrease from $7.26 billion to $5.76 billion at that same point in time.

A representative of the Kansas Policy Institute spoke in opposition to the bill, stating the issuance of bonds should be considered only if there would be no additional liability to KPERS in the future. A defined contribution plan, it was suggested, would end the risk to the state and the taxpayers for future liability.

The Committee on Pensions and Benefits amended the bill on February 11, 2015, to specify the interest rate cap would apply to all inclusive costs, including the costs of issuance, and to clarify the interest rate cap would apply to each bond series issued pursuant to the bill. On February 26, the bill was withdrawn from the House Calendar and referred to the Committee on Appropriations. On March 10, the bill was re-referred to the Committee on Pensions and Benefits. On March 16, the Committee on Pensions and Benefits further amended the bill to adjust the employer contribution rates for FY 2016 rather than for FY 2017.

According to the corrected fiscal note prepared by the Division of the Budget, and with subsequent analysis provided by KPERS, the bill as further amended could create long-term savings for the KPERS State-School Group employer contribution, totaling approximately $2.7 billion from all funding sources over the term of the bonds. Based on current budgetary data, the State General Fund (SGF) finances approximately 85.0 percent of KPERS contributions of the State-School Group. Applied to the long-term savings figure, reduced employer contributions totaling $2.3 billion from the SGF could be created by the bill. The FY 2016 employer contribution rate for the State-School Group would decrease by approximately 2.0 percent or the cost of the debt service bond payment, which is estimated to be approximately $90.3 million annually, from the statutory rate of 12.37 percent, as certified by the KPERS Board of Trustees based on the Retirement System's valuation as of December 12, 2012, to 10.37 percent. The 1.2 percent statutory cap would be applied to the FY 2017 and FY 2018 employer contribution rates for the State-School Group. The FY 2019 employer contribution rate for the State-School Group will be established based on the Retirement System's valuation as of December 31, 2015, and it would reflect the receipt of the bond proceeds.