CORRECTED

SESSION OF 2015

SUPPLEMENTAL NOTE ON SENATE BILL NO. 168

As Amended by Senate Select Committee on KPERS

Brief*

SB 168, as amended, would allow the Kansas Development Finance Authority (KDFA) to issue bonds, in one or more series, in an amount not to exceed $1.0 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 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.

The employer contribution rate for the State-School Group would decrease from 12.37 percent to 10.91 percent in FY 2016, from 13.57 percent to 10.81 percent in FY 2017, and from 14.77 percent to 10.48 percent in FY 2018, provided debt service payments would not be financed using capitalized interest or have capitalized interest-only service payments. "Capitalized interest" would mean payments on the bonds that are pre-funded or financed from bond

*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 proceeds as part of the issue for a specified period of time in order to offset one or more initial debt service payments.

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

Background

In the Senate Select Committee on KPERS, testimony in favor of the bill was provided by 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 66.0 percent. The unfunded actuarial liability would be estimated to decrease from $7.26 billion to $6.28 billion at that same point in time.

There was no opponent or neutral testimony.

The Senate Committee amended the bill to specify employer contribution rates for the State-School Group for FYs 2016 through 2018 would decrease if certain debt service conditions are met.

According to the fiscal note prepared by the Division of the Budget, in consultation with KPERS, the actuarial analysis indicates the bill, as introduced, could create long-term savings for the KPERS State-School Group employer contribution, totaling $1.8 billion from all funding sources over the term of the bonds. Based on current budgetary data, the State General Fund (SGF) finances approximately 46.0 percent of salaries and wages. Applied to the long-term savings figure, reduced employer contributions totaling $824.9 million from the SGF could be created by the bill. The present value of the SGF savings is estimated to be $486.6 million. Debt service is estimated to be approximately $60.2 million annually.

The fiscal impact relating to the conditions placed on debt service was not immediately available.