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Larry L. Campbell, Director

Laura Kelly, Governor

MEMORANDUM

TO: The Honorable Carolyn McGinn
Senate Committee on Ways and Means

FROM: Larry Campbell, Director of the Budget L.C

DATE: Wednesday, February 5, 2020

SUBJECT: Testimony for SB 321

Thank you for the opportunity to speak as a proponent of the Governor's reamortization proposal. As you all are aware, reamortization does not harm state employees or retirees. The proposal to re-amortize KPERS for 25 years does not add to the existing balance we now owe. The plan does not take money out of KPERS; rather, it takes a portion of the entire existing obligation, the State/School group portion, and extends the payback period by 10 years. It does not reduce, diminish, jeopardize, threaten, or weaken employee retirement benefits nor the state's obligation in anyway. Nor does it change the KPERS board authority for future reamortization decisions.

Yes, it comes with a cost and it pushes back hitting the projected 80.0 percent funded ratio target from 2029 to 2036. Those are not necessarily negative points; those are just the facts. The Governor clearly recognizes the cost of reamortization. But the cost of not doing it is much greater. By reamortizing KPERS, the state frees up State General Fund (SGF) resources to invest now and rectify the budget devastation of the past decade caused by the great recession and failed tax policy. The Governor believes this is a reasonable cost to achieve not only KPERS payment sustainability, but also improves SGF sustainability to fund our commitment to education, provides more resources to KDOT, and provides resources to the critical need's areas of the state. In fact, reamortization should stabilize the state's commitment to our most valued treasures, our State employees.

As KPERS obligations continue to increase, downturns in the economy will make it tempting to delay payments to KPERS, as has been done 11 times since 2010 and as recently as FY 2017 and FY 2019. Restructuring would provide SGF budget sustainability by lowering employer contribution rates. The estimates provided in this testimony came from the KPERS actuary and assumes paying off layered payments of $268.4 million in FY 2020 and includes only the State/School Group Legacy Unfunded Actuarial Liability.

Reamortization also provides budget sustainability with SGF savings in FY 2021 of $130.9 million, $132.4 million in FY 2022, $157.9 million in FY 2023 and $162.9 million in FY 2024. Reamortization is a frequently used tool to manage pension systems in other states. Reamortizing KPERS for 25 years simply takes the original 40-year KPERS amortization enacted in 1993, which has about 15 years left on the original term and extends that by 10 more years. Yes, it's a 25-year reamortization, but it only extends it 10 years beyond the existing 15 years remaining on the original plan. And there's a very big "IF" to what I just said. The 15 years remaining assumes that all payments from here on are made perfectly on time, which has simply not been the case in the past. I see several fellow bankers on the committee. Any bond & credit underwriter or banker will tell you… "don't tell me how you hope to make your payments on time in the future, let's see how you've actually made your payments in the past."

Restructuring also provides KPERS payment sustainability by lowering the temptation and risk of skipping payments and then trying to catch up by layering those payments on top of an already escalating obligation.

Restructuring avoids the cliff in 2035. The KPERS annual payments will significantly increase over the next 15 years. The projected payment starting in 2033 is over $1.0 billion. Just as recently as FY 2019, KPERS payments were delayed and the obligation at that time was only about half of the $1.0 billion that's coming in 13 years.

I would ask your support in passing SB 321 from your committee.