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February 16, 2021

The Honorable Steve Johnson, Chairperson
House Committee on Insurance and Pensions
Statehouse, Room 276A-W
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2111 by House Committee on Insurance and Pensions

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2111 is respectfully submitted to your committee.

Under current law, employees of the Kansas Department of Corrections (KDOC) are members of either the Kansas Public Employee Retirement System (KPERS) State Group or the Corrections Groups. Both groups are part of regular KPERS. The Corrections Groups are subgroups of the KPERS State Group. Generally, the requirements for normal retirement are different under the Corrections Groups and members may retire earlier than KPERS State Group members. Eligibility for membership in the Corrections Groups is based on certain job classes that have regular contact with adult offenders.

HB 2111 would make KDOC an eligible employer for the Kansas Police and Firemen's (KP&F) Retirement System on July 1, 2021 and would make "security officers" eligible for KP&F membership for both future and prior service. "Security officers" would include all uniformed corrections officers, corrections counselors, unit team managers and supervisors, classification administrators, maintenance, industries, and power plant personnel who are in regular contract with residents, and certain correctional facility administrative positions if the incumbent promoted to the position from an otherwise eligible position that was held for at least three years. The bill would allow current members to elect to stay in KPERS or move to KP&F after July 1, 2021.

The Division of the Budget and the Governor would be required to include all necessary employer contributions in the budget resulting from the shift of the Department of Corrections to KP&F. After the effective date of affiliation with KP&F, security officer employees in the Department of Corrections would pay an employee contribution rate of 7.15 percent. Currently, they pay a contribution rate of 6.0 percent.

The KPERS actuary completed a cost estimate for HB 2111. Moving KPERS correctional members to KP&F would reduce the overall KP&F employer contribution rate, as approximately $105.0 million in payroll would be added to the overall KP&F Group. The resulting KP&F

employer contribution rate is estimated to reduce from 22.99 percent to 20.54 percent with the enactment of HB 2111. However, for KDOC, the agency would see a net increase in employer contribution rates, as the bill would move this group of employees from the KPERS Correctional Group ("A" Group rate of 14.14 percent and "B" Group rate of 14.84 percent) to KP&F (employer contribution rate of 20.54 percent), which is a net increase of 5.7 percent to 6.4 percent, depending on the original membership of the eligible security officers.

KPERS and KDOC estimate that the total employer contributions for KDOC would increase by $7.2 million from the State General Fund with the enactment of the bill. However, KPERS notes that other KP&F employers would have a lower contribution rate, which would reduce employer contributions for these agencies by a net $1.5 million. As a result, the overall effect on state expenditures for KP&F employer contributions would be an increase of $5.7 million from all funding sources ($7.2 million - $1.5 million = $5.7 million). The overall effect to the State General Fund would depend on the salary funding mix of the other KP&F employers.

In addition, KPERS notes that the bill would provide KP&F membership credit for past service for these members. When an employer affiliates with KP&F for past service, there is a resulting increase in the unfunded actuarial liability of the KP&F Group. The increased unfunded liability must be funded by the newly affiliated employer so the other KP&F employers are not paying the cost of the new members. KPERS indicates that current law does provide for some KPERS assets to be transferred to KP&F to help cover the cost of the additional unfunded liability. This law would allow an amount equal to two times the member account balances to be transferred from KPERS to KP&F. For the KPERS Correctional Group, the amount of unfunded liability left after the asset transfer would be $96.2 million. If this payment cannot be made by KDOC or the state in a lump sum, the amount can be amortized over 15 years, which would require an annual payment of $10.7 million, all from the State General Fund.

For the transition and ongoing support to the Department of Corrections, KPERS estimates it would need $67,068 for 1.00 FTE position, all from the KPERS Trust Fund. The estimate includes $44,904 for salary and wages and $22,164 for fringe benefits. The position would also assist with testing information technology changes. Any fiscal effect associated with HB 2111 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Randy Bowman, Corrections
Jarod Waltner, KPERS