

March 9, 2022

The Honorable Steven Johnson, Chairperson
House Committee on Insurance and Pensions
Statehouse, Room 218-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2713 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2713 is respectfully submitted to your committee.

HB 2713 would make the Kansas Department of Corrections (KDOC) and the Kansas Department of Wildlife and Parks (KDWP) eligible employers for the Kansas Police and Firemen's Retirement System (KP&F) on July 1, 2022. The bill would convert certain positions within those agencies from KPERS membership to KP&F membership for future service only, including certain law enforcement officers at the Department of Wildlife and Parks, and certain corrections officers at the Department of Corrections.

The Kansas Public Employees Retirement System (KPERS) indicates there are two costs associated with the enactment of HB 2713, including the actuarial costs from the estimated 2,000 positions that would move to the KP&F Retirement System and additional costs for KPERS to administer the bill.

Actuarial Costs

When an employer affiliates with KP&F for future service, the employer begins paying the KP&F employer contribution rate that has been certified for KP&F employers, which would be 22.99 percent in FY 2023. The following table illustrates the estimated employer costs associated with the estimated 2,000 positions that would move to KP&F with HB 2713:

| <u>Current Group</u> | <u>FY 2023 Current Employer Contribution Rate</u> | <u>FY 2023 KP&F Employer Contribution Rate</u> | <u>FY 2023 Rate Difference</u> | <u>Estimated Increased Employer Contributions</u> |
|-----------------------------------|---|--|--|---|
| KPERS—Correctional Group A (KDOC) | 13.39% | 22.99% | 9.60% | \$ 8,400,000 |
| KPERS—Correctional Group B (KDOC) | 14.09% | 22.99% | 8.90% | 641,000 |
| KPERS (KDWP) | 13.11% | 22.99% | 9.88% | <u>1,800,000</u> |
| Total | | | | \$10,841,000 |

Of the total estimated cost of \$10.8 million, approximately \$9,041,000 would be from the State General Fund for the Department of Corrections and \$1.8 million would be from all funding sources for the Department of Wildlife and Parks, including federal and fee funds. The Division of the Budget notes that *The FY 2023 Governor’s Budget Report* includes an appropriation of \$10.0 million to the State Finance Council to account for any cost to the State General Fund for this conversion. The appropriation would be contingent upon the Legislature enacting a bill for the KP&F conversion for KDOC and KDWP during the 2022 Legislative Session.

The addition of the 2,000 members to KP&F affected by the bill would increase the payroll base of the KP&F Group without adding any past liability. Dividing the cost of the existing unfunded actuarial liability over a larger payroll base would decrease future employer contributions for the KP&F Group. Also, this new group of employees would increase the normal cost of benefits for the KP&F Group. However, the decrease in the unfunded actuarial liability payment would be larger than the normal cost, so the net effect would be lower future KP&F employer contribution rates from the change. This change would first be reflected in the 2021 actuarial valuation.

The KPERS actuary estimates that the transfer of the KDOC and KDWP KPERS members to KP&F would reduce the KPERS State/School Group’s unfunded actuarial liability by about \$47.0 million as these employees’ future benefits would shift to KP&F. However, because of the decline in the total covered payroll from these groups moving to KP&F, the State/School Group actuarial contribution rate for FY 2025 would increase by an estimated 0.22 percent, which would be approximately \$11.0 million when applied to the \$5.0 billion KPERS State/School Group’s payroll. The Division of the Budget estimates that of the \$11.0 million additional employer contributions for the State/School Group in FY 2025, approximately \$9.5 million would be required from the State General Fund, using the estimate that 86.0 percent of this group’s employer contributions is financed from the State General Fund.

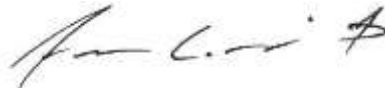
KPERS also notes that the 2,000 positions affected by the bill would experience increased employee retirement contributions. With current rates, these members contribute 6.0 percent of compensation to KPERS. After converting to KP&F, these members would contribute 7.15 percent of compensation.

Administrative Costs

KPERS estimates that an additional 1.00 FTE position would be required to provide transition and ongoing support to KDOC and KDWP, as well as individual employees affected by the change and assisting with design and testing of the agency’s information technology changes.

The estimated FY 2023 cost for this position would be \$78,274, including \$53,922 in wages and \$24,352 for associated fringe benefits. The position would be funded by the KPERS Trust Fund and would be an ongoing cost for the agency. The fiscal effect associated with the administrative cost for KPERS is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Jarod Waltner, KPERS
Randy Bowman, Corrections
Terry Bruce, Wildlife & Parks