Approved <u>May 1, 2003</u>

SELECT COMMITTEE ON PENSIONS
April 2, 2003
Room 519-S Statehouse

Members Present:
Chairman, John Edmonds
Vice-Chair, Bill McCreary
Ranking Minority, Geraldine Flaharty
Representative Ray Cox
Representative Vaughn Flora
Representative Margaret Long
Representative Melvin Neufeld
Representative Sharon Schwartz

Staff Present
Julian Efird, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Carol Doel, Committee Secretary

Committee Conferee
Senator Steve Morris
Glen Deck, Executive Director of KPERS

Chairman Edmonds called the meeting to order at 1:30 p.m. in Room 519-S of the Statehouse, and opened the floor for public hearing on **<u>SB 260.</u>** He requested that Mr. Efird of Legislative Research make a brief explanation of the bill.

Mr. Efird explained that **<u>SB 260</u>** was recommended by Senate Ways and Means Committee. In brief the bill authorizes the issuance of a maximum of 750 million dollars of taxable revenue bonds for the purpose of reducing a portion of the unfunded actuarial liability of KPERS (Kansas Public Employees Retirement System), specifically the state and school groups would be the beneficiaries of any bonds that might be issued. The bonds could be used to pay a portion of the pension liability, pay the cost of issuing the bonds and to provide for any required reserves needed for the bonds. The repayment of these bonds according to the bill would be from monies appropriated by the State.

The second part of the bill provides the finance mechanism. The bill also would increase the monies that the State must appropriate for its contributions as the employers share to KPERS for the annual payments and that would be for the state and school groups only. Beginning in fiscal year 2006, the statutory cap of 2/10 of 1% that is current law would be raised to 4/10 of 1% and in subsequent fiscal years would have a staggered increase to .5% and .6% by fiscal year '08. With this multiplier effect, the State would be contributing much greater amounts of money.

The third part of the bill is the safety mechanism that delegates authority to the State Finance Counsel to act on the Legislatures behalf. Prior to issuing any bonds a procedure is established in the bill that has to be followed. The Finance Council has authority first to make a decision whether or not to issue any bonds, the amount of the bonds to be issued or multiple issues, if that is the case, would have to be determined by the Finance Council as well as the interest rates and the periods of maturity. The second part of the bill would require that the terms for repayments of these bonds be included in contracts between the Department of Administration and KDFA subject to approval by the Finance Council. These contracts would have to include the payment arrangements regarding the amounts and procedures for the transfer of state monies, terms and conditions regarding the principal amount plus the interest rates, the maturity schedules and other things that are necessary or desirable to repay these bonds and to secure the bonds. The bill is effective upon publication in the register. The bill itself is really a skeleton for a procedure.

Chairman Edmond introduced Senator Steve Morris as a proponent of **SB 260**. Senator Morris explained that in 1993 there was a significant change in the benefits for KPERS. At that time the actuary allowed them to increase the contribution rate to 1/10 of 1% per year and keep up with what they needed to do with unfunded liability. Two years later the actuary died and a different actuary was obtained. This actuary told them that the first actuary had some incorrect conceptions and the unfunded liability was actually closer to 1.5 billion at that time. At that point in time, it was decided that the contribution rate needed to be increased and it was decided to go to 2/10 of 1%. This was continued for several years mainly due to the fact that the stock market was performing well during the 1990's. They were making progress toward the unfunded liability and making progress toward reaching equilibrium. Unfortunately, around 2000 the stock market started dropping and the last two years there has been a loss of at least 2 billion dollars out of the portfolio. As a result of that loss, the unfunded liability keeps growing. Adjustments will have to be made. A number of options have been discussed. The opportunity to get low interest rates on bonds may not be available forever. This is the primary reason for doing something at this stage of the session this year. There is some risk included with these bonds and that is the reason for trying to put up some safeguards. The positive aspect of this outweighs the risks. The positive part is that if this is used as one part of the attempt to address unfunded liability, gain can actually be made over the long term. Obviously more is going to have to be done other than pension obligation bonds. There is the need to start increasing the contribution rate. This bill would call for an increase in contribution rates starting in 2006 going to 4/10 of 1%. The next year it would be 5/10 and in 2008, 6/10 and remain at 6/10 until either equilibrium was reached or the Legislature took other action.

Glen Deck, Executive Director of KPERS addressed the committee remaining neutral to **SB260**. Mr. Deck submitted a hand-out from KPERS on long-term funding and pension obligation bonds, with information regarding the long-term funding outlook, updated funding projections, funding projections and alternatives, pension obligation bond overview, market overview, interest rates, structure, POB issues to consider, as well as pension obligation bond issues in other states. (Attachment 2)

With no further conferees on **SB 260**, Chairman Edmonds closed the hearing.
There being no further business before the committee, the Chairman adjourned the meeting at 2:30 p.m.