MINUTES

JOINT COMMITTEE ON PENSIONS, INVESTMENTS, AND BENEFITS

January 7, 2004
Room 519-S—Statehouse

Members Present

Representative John Edmonds, Chairperson
Senator David Kerr, Vice-Chairperson
Representative Geraldine Flaharty, Ranking Minority Member
Senator Jim Barone - present by telephone conference call
Senator Anthony Hensley - present by telephone conference call
Senator Steve Morris
Representative Ray Cox
Representative Vaughn Flora
Representative Margaret Long
Representative Bill McCreary
Representative Melvin Neufeld
Representative Clark Schultz

Staff Present

Julian Efird, Kansas Legislative Research Department
Alan Conroy, Kansas Legislative Research Department
J.G. Scott, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Mike Corrigan, Office of the Revisor of Statutes
Carol Doel, Committee Secretary

Conferees

Duane Goossen, Director of the Budget, State of Kansas
Steven Weatherford, President, Kansas Development Finance Authority
Glenn Deck, Executive Director, Kansas Public Employees Retirement System

Chairperson Edmonds explained that due to events that had transpired since the December meeting, he called a special meeting for several people to brief the Committee, starting with Senator Dave Kerr, Vice-Chairperson.

Senator Kerr reminded the Committee that it voted to pay out of the State General Fund or some other suitable funding source, in order to make the bond service payments, rather than taking them out of enhanced employer contributions enacted in 2003 HB 2014. After the Committee's position was established, during a phone conversation with the Governor and Senator Kerr, the Governor indicated that she felt that it would be inappropriate to take the funds from the State General Fund to make the payments and that the payments should come from the enhanced employer proceeds of HB 2014. After discussing this development with the Chairperson, it was decided to schedule a January meeting so that everyone could understand the situation, and if the Committee wishes, to revise its position on paying for the bonds.

The conclusions and recommendations of the Legislative Budget Committee were distributed to the Committee, with particular attention to the recommendation that KPERS school employer contributions be run through the per pupil state aid formula for distribution to the school districts (Attachment 1). Senator Kerr pointed out this recommendation would require a change in current statutory law for KPERS to collect the money back from school districts.

Next to be recognized was Budget Director Duane Goossen who described the Governor's position and talked about the mechanics of paying for the bond issue out of existing KPERS employer contributions. He explained that the Governor was supportive of the bond issue, provided it was repaid from the employer contributions. In HB 2014, he pointed out that a commitment was made to ramp up employer contribution rates for the Kansas Public Employees Retirement System (KPERS), starting in FY 2006, with increases in FY 2007, FY 2008, and on into the future. He explained that a commitment is already in place and that the Governor has agreed to more money from the State General Fund for increased employer contributions. If a bond issue were paid out of the State General Fund directly, then there would be an additional draw on the State General Fund of approximately $40,000,000 per year for the bond payments. He explained that the Governor is willing to go forward with the bond issue, but wishes it to be done out of the existing stream of employer contributions where additional funding already will come from the State General Fund.

Mr. Goossen said that it was necessary to pay for a $500,000,000 bond issue directly from the State General Fund in order to secure the best interest rates on the bonds, and there needs to be a direct State General Fund appropriation to pay off the bonds. Also, some of the employer contributions that are going to KPERS need to be used to repay the State General Fund for the bond expenses. A change in current statutory law will be required in order to use KPERS employer contributions for that purpose.

Material from the Kansas Development Finance Authority was distributed by Steve Weatherford, KDFA President. Alternative bond structures were presented with more recent interest rates and alternative rates (Attachment 2).

Chairperson Edmonds recognized Glenn Deck, KPERS Executive Director, who submitted a chart showing the comparison of KPERS funding for different pension obligation bond scenarios (Attachment 3). A Legislative Research comparison also was distributed regarding the fiscal impact of different options for KPERS long-term funding (Attachment 4). Also distributed was a copy of the letters sent to Committee members after the December 1, 2003 meeting with scenarios to show the impact of the recommendations made at the December meeting (material of December 19, 2003) as well as a redo suggested by the Chairperson based on the recommendation of the Governor (material of December 31, 2003) with the scenarios associated with the Governor's plan (Attachment 5).

Chairperson Edmonds advised the Committee that the opportunity to revisit the action taken at the meeting of December 1, 2003 now arose, and asked for any motions.

Representative Flaharty moved to revisit the previous recommendation and instead to use the bond plan without capitalization as presented today by KDFA and to support introduction of necessary legislation for the debt service to be from employer contributions. Representative Flora seconded the motion.

Chairperson Edmonds stated that he was struggling with the motion not in content, but in its form of combining several subjects that seemed to have a logical order. The Chairperson felt that the first step should be to reconsider the previous action before acting on a new motion to do something differently, and requested that Representative Flaharty withdraw her motion.

Representative Flaharty withdrew her motion, with no objection from Representative Flora.

Senator Kerr made a motion to reconsider the Committee's position taken at the December 1, 2003, meeting on how bonds should be paid from non-KPERS funds. Senator Morris seconded the motion.

Chairperson Edmonds called for a vote, reminding the Committee that a "yes" vote would be to reconsider the Committee's actions of December 1 and that a "no" vote would be to leave the action as it stands.

Motion passed to reconsider the action taken at the December 1 meeting.

Mr. Weatherford, KDFA President, was asked for additional information regarding pension obligation bonds and supplied detailed material associated with the previous KDFA handouts (Attachment 6).

Representative Flaharty moved that the Committee recommend the bond plan without capitalization as presented by KDFA and to specify that reimbursements for the State General Fund for debt service may be paid from KPERS employer contributions. Motion was seconded by Representative Flora.

The Chairperson announced that a roll call vote would be taken since two members were participating by telephone and not in the room:

Representative Flora	*yes*
Senator Hensley	*yes*
Senator Barone	*no*
Representative Long	*yes*
Representative Flaharty	*yes*
Senator Kerr	*yes*
Senator Morrison	*yes*
Representative Neufeld	*no*
Representative Cox	*no*
Representative McCreary	*no*
Representative Schultz	*no*

Motion carried with six in favor and five opposed.

Senator Kerr stated that he was not clear whether the motion included the Committee's instructions to introduce legislation that would make possible the action just recommended to be taken.

Representative Flaharty moved to introduce the required legislation. Motion was seconded by Representative Long. Motion carried.

With no further business before the Committee, Chairperson Edmonds adjourned the meeting.

Prepared by Carol Doel
Edited by Julian Efird

Approved by Committee on:

January 28, 2004
(date)

Supplement 1, dated January 13, 2004, is the revised fiscal note, with Option B reflecting the Committee's new position.