

**CONFERENCE COMMITTEE REPORT BRIEF
SENATE BILL NO. 421**

As Agreed to March 31, 2022

Brief*

SB 421 would transfer \$1.125 billion from the State General Fund (SGF) directly to the Kansas Public Employees Retirement System (KPERs) Trust Fund. Of that amount, the first \$253.9 million SGF would pay off outstanding accounts receivable for KPERs-School employer contributions withheld in FY 2017 and FY 2019 (“layering payments”) while the remaining \$871.1 million SGF would be applied to the KPERs-School unfunded actuarial liability.

The bill would transfer \$853.9 million in FY 2022 in two installments—\$553.9 million on the effective date of the bill and \$300.0 million on June 1, 2022. The remaining \$271.1 million would be transferred in FY 2023 in two installments, both subject to approval, but not modification, from the State Finance Council—\$146.1 million on August 1, 2022, and \$125.0 million on December 1, 2022.

The schedule of payments is summarized below:

SB 421 Payment Schedule by Fiscal Year*		
FY 2022		
KPERs Layering Payment (effective date of bill)	\$	253,866,022
KPERs-School (effective date of bill)		300,000,000
KPERs-School (June 1, 2022)		300,000,000
Subtotal—FY 2022	\$	853,866,022
FY 2023		
KPERs-School (August 1, 2022)**	\$	146,133,978
KPERs-School (December 1, 2022)**		125,000,000
Subtotal—FY 2023	\$	271,133,978
GRAND TOTAL	\$	1,125,000,000

* While the Conference Committee used rounded estimates in its discussions, the numbers represented here and in the Conference Committee Report reflect exact amounts.

** The bill authorizes the State Finance Council to stop these payments upon approval of a resolution.

*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kIRD>

The bill would also update provisions in law relating to employer contributions and contribution rates for State and School employers by removing references to the repayment schedule for the delayed contributions, which currently require these contributions to be paid on a level-dollar basis over a 20-year period. [Note: This period began in FY 2018 and FY 2020.]

The bill would be in effect upon publication in the *Kansas Register*.

Conference Committee Action

The Conference Committee agreed to the provisions of SB 421, as amended by the House Committee of the Whole, with the following changes:

- Increase the total amount of the SGF transfer from \$1.0 billion to \$1.125 billion;
- Adjust the timing of payments to occur in four installments—on the effective date of the bill (\$553.9 million), June 1, 2022 (\$300.0 million), August 1, 2022 (\$146.1 million), and December 1, 2022 (\$125.0 million) [Note: This is similar to the payment schedule provisions found in SB 523, as amended by the Senate Committee on Ways and Means];
- Credit all transferred amounts not applied to the layering payment to the KPERS-School unfunded actuarial liability; and
- Authorize the State Finance Council to stop the transfers scheduled for August 1, 2022, and December 1, 2022.

The Conference Committee also agreed to review the December 1, 2022, payment (\$125.0 million), as well as potential reductions to employer contribution rates, at Omnibus.

Background

SB 421 was introduced by the Senate Committee on Ways and Means at the request of Senator Claeys.

[Note: The 2016 Legislature approved the delay of employer contributions from the KPERS-School group in FY 2017 and FY 2019. To keep the Retirement System whole, the Legislature authorized statutory layering payments, financed at the KPERS assumed rate of return of 7.75 percent, for 20 years for each of the missed payments, totaling \$25.8 million SGF annually. At the end of FY 2022, the outstanding balance of those payments is expected to total \$253.9 million.]

Senate Committee on Ways and Means

In the Senate Committee hearing on February 9, 2022, the Executive Director of KPERS, appearing on behalf of the KPERS Board of Trustees, testified as a **proponent**, indicating delayed contributions totaled \$64 million in FY 2017 and \$194 million in FY 2019. The Executive Director stated payments on FY 2017 missed contributions total \$6.4 million per year for 20 years beginning in FY 2018 and payments on FY 2019 missed contributions total \$19.4 million

per year for 20 years beginning in FY 2020. The Executive Director noted enactment of the bill would not change the assets, liability, or contribution rates determined in the annual actuarial valuation because the delayed contributions are assumed to be statutorily scheduled. No other testimony was provided.

House Committee on Insurance and Pensions

In the House Committee hearing on March 7, 2022, the Executive Director of KPERS testified as a **proponent**, expressing support for the bill and indicating the payment of \$253.9 million in delayed contributions would save the State approximately \$172 million SGF in interest costs over 17 years.

The Director of the Budget provided neutral testimony, stating the elimination of the two layering payments would provide both immediate and long-term fiscal benefits to the State, releasing \$25.8 million SGF that would have otherwise been used for debt service for FY 2023, and eliminating approximately \$171.9 million in interest payments over the next 16 years. The Director also expressed a preference to appropriate the layering payment through the State Department of Education to better reflect the transaction as a matter of proper accounting. No other testimony was provided.

The House Committee amended the bill to transfer \$1.0 billion from the SGF in total. Of that amount, \$746.1 million SGF would be transferred directly to the KPERS Trust Fund and applied to the KPERS State/School unfunded actuarial liability. The remaining \$253.9 million SGF would be transferred to the State Department of Education to pay off outstanding accounts receivable for KPERS-School employer contributions withheld in FY 2017 and FY 2019. [*Note:* The Conference Committee retained the amendment, in part, to transfer \$1.125 billion total, split between FY 2022 and FY 2023.]

[*Note:* The bill, as it passed the Senate, would have transferred \$253.9 million from the SGF directly to the KPERS Trust Fund.]

House Committee of the Whole

On March 9, 2022, the House Committee of the Whole amended the bill to remove the appropriation to the State Department of Education and directly transfer the entire \$1.0 billion SGF to the KPERS Trust Fund. Of that amount, the first \$253.9 million would pay off outstanding accounts receivable for KPERS-School employer contributions withheld in FY 2017 and FY 2019. The remaining \$746.1 million would be applied to the KPERS State/School unfunded actuarial liability. [*Note:* The Conference Committee retained the amendment.]

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on SB 421, as introduced, enactment of the bill would result in an immediate transfer of \$253.9 million from the SGF to the KPERS Trust Fund. Paying off the layering payments before the final maturity date would save the State approximately \$171.9 million SGF in interest payments and eliminate \$25.8 million in annual payments. The transfer is included in *The FY 2023 Governor's Budget Report*.

Employer contribution rates. According to the fiscal note on SB 523, as introduced, which is substantively similar to SB 421, transferring \$600.0 million in FY 2022 would decrease SGF revenue but not incur changes in expenditures until FY 2025, absent language to modify current certified employer contribution rates for the KPERS-State/School Group for FY 2023 and FY 2024.

Retirement; appropriations; revenue transfer; unfunded actuarial liability; State Finance Council

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