

February 8, 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 2561 by House Committee on Insurance and Pensions

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2561 is respectfully submitted to your committee.

During FY 2017 and FY 2019, the Legislature enacted budgets that withheld approximately \$258.0 million for KPERS-School employer contributions, all from the State General Fund. To keep the retirement system whole from an actuarial view, statutory annual layering payments were authorized for 20 years for each of the missed payments, totaling \$25.8 million from the State General Fund. The annual layering payments are financed at the KPERS-assumed rate of return of 7.75 percent. At the end of FY 2022, the outstanding balance of these payments total \$253,866,022, which is held as an accounts receivable by KPERS.

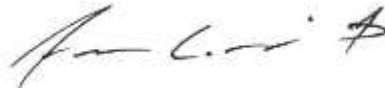
On the effective date of the bill, HB 2561 would transfer \$1.0 billion from the State General Fund to KPERS. Of the total amount, \$253,866,022 would be used to pay off the outstanding accounts receivable for these withheld KPERS-School employer contributions. The remainder of the transfer would be used to pay down the unfunded liability of the KPERS State-School Group. The bill would also remove the statutory references that authorize the payments.

In *The FY 2023 Governor's Budget Report* an appropriation for the Department of Education totaling \$253,866,022 is included for paying off the layering payment obligation with KPERS. This recommendation is made in the Department of Education's budget in order to account for expenditures in the state's budget that were not made during FY 2017 and FY 2019. Paying off the layering payments before the final maturity will save the state approximately \$171.9 million in interest payments, all from the State General Fund. Instead of making an appropriation to the Department of Education, HB 2561 would transfer funds directly from the State General Fund to KPERS to pay off the laying payments and to pay down the KPERS State/School Group

unfunded actuarial liability by \$746,133,978. The Governor's recommendation has recognized the elimination of the \$25.8 million annual layering payment State General Fund appropriation in the Department of Education with the payoff off the layering payment.

The KPERS actuary indicates that the additional payment of \$746,133,798 in FY 2022 would increase the State/School Group funded ratio from 77.4 percent to 80.8 percent. The bill would not result in any decrease to the KPERS State/School Group employer contribution rate until FY 2025, as there is no mechanism included in the bill to recognize earlier savings. The fiscal effect associated with the additional transfer to KPERS beyond the layering payment payoff in HB 2561 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