

SESSION OF 2023

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2102**

As Amended by House Committee on Financial  
Institutions and Pensions

**Brief\***

HB 2102, as amended, would appropriate \$250.0 million from the State General Fund (SGF) to the Office of the State Treasurer (Treasurer) in FY 2023 for the purpose of repurchasing some, or all, of the outstanding portion of Kansas Development Finance Authority (KDFA) Series 2021K bonds. Proceeds from those bonds were applied to the unfunded actuarial pension liability (UAL) of the Kansas Public Employees Retirement System (KPERs). The bill would pay down existing debt obligations related to those bonds and does not directly impact the UAL.

The bill would authorize the Treasurer to purchase any outstanding bond in the following manner:

- Expenditures of those funds must be made for:
  - Paying the costs of purchasing, including transaction costs and excluding accrued interest;
  - Purchasing any one or more maturities, either whole or in part, pursuant to one or more purchases; and
  - Purchasing such bonds at prices reflecting a discount of up to 79.5 percent of the principal amount at maturity, in excess of \$500,000.

Any funds remaining at the end of FY 2023 would reappropriate into FY 2024 for the same purposes.

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

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

## **Background**

The 2021 Legislature passed HB 2405, which authorized the KDFA to issue bonds, in one or more series, in an amount not to exceed \$500.0 million, plus all amounts required to pay the costs of issuance. Proceeds from those bonds were applied to the KPERS UAL. The interest rate of those bonds could not exceed 4.3 percent. The bill became effective upon its publication in the *Kansas Register* (April 29, 2021).

The bonds were issued for a total cost of \$504.5 million, including costs of issuance, for a total interest rate of 2.65 percent. The KPERS Trust Fund received a transfer of \$500.0 million on August 26, 2021. Series 2021K is structured as level fiscal year debt service with a \$300.0 million term bond maturing on May 1, 2051.

HB 2102 was introduced by the House Committee on Financial Institutions and Pensions at the request of Representative Hoheisel. As introduced, the bill would appropriate \$250.0 million SGF to the Treasurer to repurchase outstanding portions of Series 2021K bonds at prices reflecting a discount of up to 75.0 percent of the principal amount at maturity.

## ***House Committee on Financial Institutions and Pensions***

In the House Committee hearing on February 6, 2023, the State Treasurer testified as a **proponent**, stating the repurchase of Series 2021K bonds takes advantage of the low interest rate obtained on those bond issues and the dramatic increase in interest rates since that time. The State Treasurer also indicated other debt repayment options are limited by provisions in bond issues, and repurchasing Series

2021K bonds is one of the options currently available to the State. Lastly, the State Treasurer described a potential consideration to set the maximum price offered for those bonds at 80.0 percent of the principal amount at maturity, which would allow repurchase of up to \$300.0 million of the bonds for \$240.0 million.

The Director of the Budget also provided **proponent** testimony, stating the bill would retire upwards of \$300.0 million of KPERS pension obligation bonds and save millions of dollars in future interest payments. The Director indicated the bill would also strengthen the State's position with credit rating agencies by eliminating debt associated with the public employee retirement program. Lastly, the Director emphasized the \$2.0 billion SGF ending balance in the Governor's budget recommendation would provide the necessary funding source to finance this tender.

A representative of the KDFA provided neutral testimony, stating this repurchase opportunity exists because Series 2021K was priced when bond yields were low and they have since increased significantly in response to inflationary pressure as well as Federal Reserve countermeasures to inflation.

On February 15, 2023, the House Committee amended the bill to increase the maximum price offered to 79.5 percent of the principal amount of those bonds at maturity in excess of \$500,000. The amendment would also exclude accrued interest when determining costs and authorize the reappropriation of these funds from FY 2023 into FY 2024. The amendment was offered in consultation with the KDFA and State Treasurer.

### **Fiscal Information**

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, enactment of the bill would result in a \$250.0 million appropriation from the SGF to

the Treasurer. The Treasurer estimates any additional duties resulting from enactment of the bill could be absorbed within existing agency resources. The KDFA estimates that, if bondholders tender all of the \$300.0 million FY 2051 term bond, \$300.0 million in future debt service principal payments would be retired. Additionally, the KDFA estimates interest savings to total \$177.4 million and that the remaining amount on the bond would be \$199.5 million (\$175.3 million for principal and \$24.2 million for interest). The bond would be paid off in FY 2036.

Appropriations; Pensions; bonds; State debt; KPERS; KDFA; State Treasurer