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Sam Brownback, Governor

March 2, 2011

The Honorable Mitch Holmes, Chairperson
House Committee on Pensions and Benefits
Statehouse, Room 166-W
Topeka, Kansas 66612

Dear Representative Mitch Holmes:

SUBJECT: Fiscal Note for HB 2328 by House Committee on Pensions and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2328 is respectfully submitted to your committee.

HB 2328 would require school employers to pay a 1.0 percent KPERS employer contribution in FY 2012, in addition to the existing School Group employer contribution funded by the state from the State General Fund. This additional employer contribution paid by school employers would escalate 1.0 percentage point each year until such time as the contributions funded by the state equal the actuarially required contribution (ARC) rate. Once state contributions equal the ARC rate, subsequent increases or decreases in School Group employer contributions resulting from changes in the ARC rate would be shared proportionally by state-funded employer contributions and the school employers.

Under current law, the state makes an annual State General Fund appropriation to the Department of Education in an amount equal to the statutory State/School rate applied to the projected total School Group payroll. The Department of Education allocates this funding to each school employer, and in turn, the school employers are required to submit the contributions to KPERS. State Group employers pay the combined State/School rate on state employee payrolls. If the statutory State/School combined rate is greater than the State Group's ARC rate, the state employer contributions in excess of the State Group ARC rate are credited to the School Group. HB 2328 would not change this relationship between the funding for the State Group and the School Group. Likewise, the procedures for determining the amount of state funding for the School Group and distributing it through the school employers would not be altered by HB 2328.

However, HB 2328 would increase the employer contributions credited to the School Group by requiring each school employer to pay an additional employer contribution in the amount of 1.0 percent in FY 2012. That amount would rise by 1.0 percentage point in each subsequent fiscal year until the State/School Group's statutory rate is equal to the actuarially required contribution (ARC) rate. By requiring contributions funded directly by school employers, additional revenues to the KPERS plan in the near term would improve its funded status over the long term. Over time, HB 2328 is projected to reduce the maximum School Group ARC rate and reach the School Group's "ARC date" (the point at which the margin between the statutory rate and the ARC rate is eliminated) more quickly.

The additional school employer contributions are projected to lower the School Group ARC rate to 11.8 percent in FY 2018. Under current law, the School Group does not reach the ARC rate before the end of the UAL amortization period, even with a statutory rate of 21.37 percent. School employers would contribute at a 1.0 rate in FY 2012, with an additional 1.0 percentage point in each following year. The school employer rate would be projected to reach a peak rate of about 6.0 percent by FY 2018, the point at which the state is projected to be paying the 11.8 percent School Group ARC rate. Subsequently, further changes in the contribution rate would be shared proportionately between the state and school employers at an estimated ratio of about 66.0 percent to 33.0 percent, respectively.

The State Group would not receive any additional funding under HB 2328. As a result, the State Group would reach an ARC rate of 11.8 percent in FY 2018 under both HB 2328 and current law. However, the statutory combined State/School rate that state employers pay after reaching the State ARC rate would be substantially lower under HB 2328. As noted previously, State Group employers are required to contribute at the combined State/School Group rate, and when the State Group's ARC rate is lower than the State/School Group rate, the contributions in excess of the State Group's ARC rate are then credited to the School Group. As a result, under current law, State Group employers would be contributing at the same 21.37 percent statutory rate as the School Group by FY 2033. However, HB 2328 would reduce the combined State/School ARC rate to 11.8 percent in FY 2018, which would be comparable to the State Group's ARC rate.

HB 2328 would not alter the existing 0.6 percent cap on rate increases for KPERS employer contributions. As a result, from FY 2012 though FY 2017, there would be no change in state-funded contributions to the State Group and the School Group. Beginning in FY 2018, contributions would rise at a slower rate than under current law from the effect of the additional contributions from school employers. Projected contributions and savings over the entire period of FY 2012 through FY 2033 would include the following:

1. Net reductions in contributions by the state of $7.8 billion for the State-School Group, including $1.9 billion for the State Group and $5.9 billion for the School Group;

2. Local school employer contributions of $5.4 billion, with initial contributions of $34.8 million in FY 2012, rising to $230.6 million by FY 2017;

3. Total contributions from all sources of $20.6 billion, which is a $2.4 billion net reduction in contributions when compared to current law.

KPERS notes that the agency would incur an estimated $26,400 in costs for modifications to its employer contribution reporting and accounting systems that would be required to calculate and process the additional KPERS school employer contributions.

Although the bill requires a 1.0 percent contribution by school employers to KPERS, the bill does not identify a new funding source that school districts could utilize to make the payments. Any fiscal effect associated with HB 2328 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Faith Loretto, KPERS