UPDATED
SESSION OF 2021

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2405

As Amended by House Committee on Insurance and Pensions

Brief*

HB 2405, as amended, would authorize the Kansas Development Finance Authority (KDFA) to issue bonds, in one or more series, in an amount not to exceed $1.0 billion, plus all amounts required to pay the costs of issuance. Proceeds from those bonds must be applied to the unfunded actuarial pension liability (UAL) of the Kansas Public Employees Retirement System (KPERS). The interest rate of those bonds would not exceed 3.5 percent. If the interest rate, all inclusive cost, on one or more of those bonds exceeds 3.5 percent, but not 3.75 percent, KDFA would be authorized to issue bonds in an amount not to exceed $500.0 million, to be applied to the UAL. No bonds could be issued without the approval of the State Finance Council, which could give that approval while the Legislature is in session. The bonds issued and interest owed are an obligation of KDFA and not KPERS. The bonds issued would not be considered a debt or obligation of the State for purposes of the *Kansas Constitution*. The Department of Administration and the KDFA would be permitted to enter into contracts to implement the payment arrangements after the bonds are issued.

Background

The bill was introduced by the House Committee on Appropriations at the request of Representative Johnson and

*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 referred to the House Committee on Insurance and Pensions. As introduced, the bill would authorize the issuance of up to $1.0 billion in bonds for the KPERS UAL.

House Committee on Insurance and Pensions

In the House Committee hearing on February 22, 2021, a representative of KPERS testified as a **proponent,** stating the addition of $1.0 billion to the KPERS Trust Fund would have both immediate and long-term impacts to the system. The representative stated the funded ratio for the KPERS State/School Group would increase by about 4.8 percent, to 76.7 percent, while the estimated UAL for calendar year (CY) 2021 would decrease from $6.05 billion to $5.01 billion.

A representative of the Kansas Association of Retired School Personnel and the Kansas Coalition of Public Retirees also provided **proponent** testimony, stating the 2004 and 2015 KPERS Pension Obligation Bond issues are performing well. The representative further stated enactment of the bill and an additional benefit increase would result in a positive economic boost to the State of Kansas.

A representative of the Kansas Sheriffs Association also testified as a **proponent**, stating the bill is evidence of the State attempting to make KPERS a reliable retirement system.

Lastly, Representative Miller spoke as a **proponent** of the bill, stating investing borrowed money is an effective means of generating revenue for the KPERS Trust Fund. Representative Miller further stated the 2004 KPERS Pension Obligation Bond issue delivered almost $332.0 million in net proceeds while the 2015 bond issue added almost $141.0 million in net proceeds.

The House Committee amended the bill to authorize KDFA to issue up to $500.0 million in bonds if the interest rate on those bonds exceeds 3.5 percent but not 3.75 percent.

The House Committee also amended the bill to correct the technical language of the bill.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill as introduced, enactment of the bill and the issuance of a $1.0 billion 30-year bond would result in approximately $49.8 million to $55.9 million annually in debt service payments. The KPERS consulting actuary notes that bond proceeds would first be reflected in the December 31, 2020, valuation and would set the employer contribution rates for FY 2024. Under the current schedule of KPERS State/School Group employer contributions, a total of $13.56 billion is estimated to be received by the system for the 30-year duration. The actuary further estimates that the addition of $1.0 billion toward the UAL would reduce employer contributions over the same time period to $12.11 billion, for net savings of approximately $1.5 billion.

Retirement; pensions; bonds; KPERS