

March 19, 2014

CORRECTED

The Honorable Marc Rhoades, Chairperson  
House Committee on Appropriations  
Statehouse, Room 111-N  
Topeka, Kansas 66612

Dear Representative Rhoades:

SUBJECT: Corrected Fiscal Note for HB 2740 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following corrected fiscal note concerning HB 2740 is respectfully submitted to your committee.

Under current law, legislators receive the sum of \$88.66 per calendar day for service for any regular or special legislative session. After January 9, 2017, HB 2740 would change this amount to be based upon 80.0 percent of the average daily salary of all teachers in Kansas for the preceding school year, as determined by a certification by the Director of the Budget and a formula outlined in the bill.

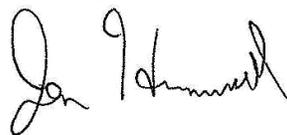
In addition, the bill would change the way legislators' KPERS benefits are calculated. The bill would eliminate the annualization of legislator compensation currently used in the final salary calculation, and on which legislator contributions are paid into KPERS. Also, the bill would eliminate legislators' ability to elect which components of legislative pay are used to calculate compensation, as it relates to KPERS benefits, including subsistence allowance and other expenses, as currently allowed by law. Finally, the bill would require KPERS to refund any amounts deducted and remitted from compensation of a legislator prior to January 9, 2017, which is in excess of "compensation," as defined in current law on this topic. The original fiscal note did not explain the bill's effect on legislators' KPERS benefits.

Enactment of HB 2740 would not affect legislators' direct compensation until FY 2017. However, to illustrate the potential cost of the bill, the Department of Education reports that the average teachers' salary during the 2012-2013 school year was \$47,361, excluding supplemental contracts, employment incentives and retention bonuses. In addition, the Department notes that the minimum number of school days during the 2012-2013 school year was 186 six-hour days. If HB 2740 were to be in effect for the current fiscal year, the amount that legislators would receive per calendar day based on the formula in the bill would be approximately \$204.00 ( $\$47,361 / 186 \text{ days} \times 80.0 \text{ percent} = \$203.70$ ). This would be a base salary increase of \$115.34 from the current base salary of \$88.66. Including fringe benefit costs, the total cost per day per legislator would be \$126.65. With 165 legislators paid each day, the daily salaries and wages cost for enactment of HB 2740 would be \$20,897 ( $\$126.65 \times 165 = \$20,897$ ).

The original fiscal note did not include information from KPERS regarding the change in calculating legislator compensation with regards to KPERS benefits. KPERS reports that enactment of HB 2740 would affect the state's retirement system. Because the daily pay and expense elements of legislative compensation would no longer be annualized with HB 2740, the new definition of compensation for legislative members relating to KPERS would reduce the annual amount of compensation for purposes of determining a legislator's KPERS member benefit. Under current law, legislators can choose among four options of compensation calculation relating to KPERS benefits, including: (1) legislator daily pay, annualized (\$32,361); (2) Legislator pay with non-session expenses (\$39,444); (3) Legislator pay with daily session expenses, annualized (\$79,446); or (4) legislator pay with both session and non-session expenses (\$86,529). According to KPERS, most current and past legislators have chosen option number four, which provides the greatest amount of compensation to be calculated into a KPERS benefit. With HB 2740, the maximum amount of legislator compensation that would be allowed for the KPERS benefit calculation would be estimated at \$39,051, including \$19,584 for daily pay at \$204 per day for 96 days, \$12,384 in daily expenses at \$129 per day for 96 days, and \$7,083 for non-session expenses at \$354.15 for 20 biweekly periods.

Because of this reduction in compensation for the calculation of retirement benefits, KPERS estimates that enactment of HB 2740 would reduce the actuarial liability of the KPERS system by \$9,146,551, based on data from the December 31, 2012 valuation. The agency also states that more manual research and analysis of individual legislator member pay records would be required to estimate the total cost of the refund provisions of the bill. KPERS notes that while HB 2740 could be expected to reduce the liabilities associated with legislative KPERS members, the bill would not be expected to have a material effect on the long-term costs of KPERS, because of the small size of the number of members affected. Any fiscal effect associated with HB 2740 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is fluid and cursive, with the first name "Jon" being more prominent than the last name "Hummell".

Jon Hummell,  
Interim Director of the Budget

cc: Dale Dennis, Education  
Faith Loretto, KPERS  
Jeff Russell, Legislative Services