

February 9, 2022

The Honorable Steven Johnson, Chairperson
House Committee on Insurance and Pensions
Statehouse, Room 218-N
Topeka, KS 66612

Dear Representative Johnson:

SUBJECT: Neutral Testimony on HB 2561

Thank you for allowing me the opportunity to provide neutral testimony on HB 2561. This bill would transfer \$1.0 billion from the SGF to KPERS. The first \$253.8 million of this transfer would be to pay off the outstanding balance of the state's skipped payments from FY17 and FY19 (layering payments). The remaining funds would be used to pay down a portion of the remaining legacy unfunded actuarial liability (UAL) of the KPERS state-school group.

The administration is in full support of the concept of utilizing \$253.8 million of the current budget surplus to eliminate the KPERS layering payment, and a nearly identical proposal was included in the Governor's budget recommendation (GBR) for FY22. Eliminating the KPERS layering payment will provide both immediate and long-term fiscal benefits to the state. It will immediately release \$25.8 million of SGF annually that would have otherwise been dedicated to debt service for this payment. Over the course of the next 16 years, eliminating this debt will allow the state to save approximately \$171.9 million in interest payments, all from the SGF.

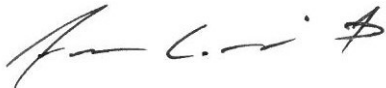
Specific to the layering payment component of the bill, one key difference between HB 2561 and the Governor's recommendation is the mechanism for moving the funds. While HB 2561 is a revenue transfer (direct transfer from the SGF to KPERS), the Governor is recommending appropriating the funds to the Department of Education, who would then make the payment to KPERS for the purpose of eliminating the layering payments. By appropriating the funds to the Department of Education, and requiring them to make the final payment, the state will properly account for the state's budget expenditures that were not made during FY17 and FY19. If the state were to instead move forward with a revenue transfer, as is required in HB 2561, then we would not be properly accounting for these skipped expenditures. My preference would be to reflect this transaction as an expense through the Department of Education, as a matter of proper accounting.

In addition to eliminating the layering payment, HB 2561 would provide for a \$746.1 million extraordinary deposit to KPERS to pay down a portion of the UAL. While I recognize the importance of continuing our work toward reducing this outstanding obligation and increasing the funded ratio of the plan, the benefits to the SGF for this provision are not the same as with elimination of the layering payment. As the bill is written, the state would not see a reduction in its employer contribution rate until FY25, meaning there would not be any immediate benefit to the SGF, absent additional language allowing the state to recalculate its rate early. Additionally, any level of savings achieved with this deposit would be split between SGF and other funds (fee funds, etc.). The Division of the Budget estimates that approximately 86% of any savings associated with this provision would be attributable to the SGF.

The Governor's budget recommendation proposes a host of one-time expenditures to better position the state's long-term budget outlook. Some of these expenditures include making a historic deposit to the budget stabilization fund, early debt retirement (i.e. – eliminating the KPERS layering payment), using current budget surpluses to pay cash for capital projects rather than acquiring new debt, and making one-time investments in deferred maintenance and cyber-security. After accounting for these one-time expenditures, as well as providing tax relief, the FY23 SGF ending balance is projected to be right at the statutorily required 7.5%. As revenues continue to beat estimates, and other areas of need have been proposed as potential targets for one-time funding, it might be prudent to review a comprehensive list of all new ideas vs. available funding at a later point in session.

I appreciate this committee's support of the Governor's proposal to eliminate the KPERS layering payment, and I look forward to the opportunity to partner on the balance of the bill as it moves forward. I would be happy to answer any questions that the committee might have.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt". The signature is fluid and cursive, with a stylized flourish at the end.

Adam Proffitt
Director of the Budget