

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5902-01  
Bill No.: HB 2184  
Subject: Retirement - Schools; Kansas City  
Type: Original  
Date: February 5, 2018

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Bill Summary: This proposal modifies provisions relating to the Public School Retirement System of Kansas City.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Local Government</b>	<b>(\$1,550,770)</b>	<b>(\$3,083,540)</b>	<b>(\$1,550,770 - \$2,584,617)</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Kansas City Public School Retirement System (KCPSRS)** assume HB 2184 (5902-01) modifies the provisions for the Kansas City Public School Retirement System's (KCPSRS) contribution rate from a fixed/capped rate to the actuarially required contribution (the ARC). The overall goal of the legislation is to move the System toward an actuarial funding ratio of 100% with all due expediency. While a ratio of less than 100% is not necessarily a problem or crisis, the combination of a decreasing funded ratio and contributions falling short of the ARC would, over time, threaten the plan's sustainability. In addition, KCPSRS is required to be 100% funded before the board may consider granting a cost of living increase to retirees. Other objectives of the legislation include limiting the member rate to 9%; and, after the first two years, limiting any potential employer rate increases to no more than 1% in any year.

One of the most important factors for a well-funded pension plan is making the full actuarially required contribution (the ARC) necessary to fund the benefits promised to members. Currently, the KCPSRS contribution rate is set by statute at a fixed or capped rate and KCPSRS is at the capped contribution rate of 18% (9% active member and 9% employer). Best practices for public pension plans includes paying the ARC each year. Not paying the ARC in one year simply "kicks the bucket" to following years, thereby exacerbating any pension plan underfunding. KCPSRS' Board of Trustees spent this past year analyzing the System's assets, liabilities, and funding plan. All participating employers were engaged in discussions and proposals. The proposal to increase employer contribution rates, as reflected in HB 2184, evolved from those discussions.

The provisions of HB 2184 (5902-01) include:

- Effective January 1, 2019, the total contribution rate will be 19.5%, (members 9% + employers 10.5%)
- Effective January 1, 2020, the total contribution rate will be 21.0%, (members 9% + employers 12.0%)
- Rates for 2021 and subsequent years:

1. The member contribution rate will remain at 9% until the retirement system's funded ratio reaches 100% and the ARC falls below 18%. The member contribution rate will then be 50% of the ARC, but not more than 9%.
2. The employer contribution rate will vary depending on the ARC and the retirement system's funded ratio.
  - (a) While the funded ratio is below 100%: The employer contribution rate will be the difference between the ARC and the 9% member contribution rate, but not less than 12%, subject to the annual adjustment limits described in (d) below.
  - (b) When the funded ratio reaches 100% and the ARC is at or above 18%: The employer contribution will be the difference between the ARC and the 9% member contribution rate, subject to the annual adjustment limits described in (d) below. The 12% minimum will no longer apply.
  - (c) When the funded ratio is at or above 100% and the ARC is below 18%: The ARC rate will be divided equally between the employer and the member.

ASSUMPTION (continued)

To achieve equal contribution rates, the annual adjustment limits described in (d) below will not apply for any year in which the ARC falls below 18% after being above 18% in the prior year, but the limits will apply for other years. (d) Annual adjustment limits: Except as stated in (c) above, contribution rates will not be increased by more than 1% over the rate in effect for the prior year and will not be decreased by more than ½% from the rate in effect for the prior year. • The rates for 2021 and subsequent years will become effective July 1 rather than January 1 to better coincide with schools’ budget and fiscal year. The rate for each July 1 will be known and available to the employers in the previous year, 18 months in advance of the effective date.

Fiscal Impact: There is no state General Revenue impact from this proposed legislation. KCPSRS is a participating employer of the System and thus will pay the employer contribution increases on its employees from the System’s investment fund. The fiscal impact of this proposal to the Kansas City Retirement System is projected as \$7,820 in calendar year 2019 and \$7,820 in calendar year 2020, thereafter the fiscal impact is projected to be in the range of \$0 zero to \$5,213 in any given year.

<b>Employer Contribution rates by year</b>	<b>Current Rate 9%</b>	<b>2019 Rate - 10.5%</b>	<b>2020 Rate 12.0%</b>	<b>Thereafter, limited to 1% increase (13%)</b>
Total Salaries 2018	\$512,341	\$512,341	\$512,341	\$512,341
Employer Contribution	\$46,921	\$54,741	\$62,561	\$62,561 - \$67,774
Fiscal Impact of increase		\$7,820	\$7,820	\$0 - \$5,213

**Oversight** assumes this proposal will have a significant fiscal impact on the KCPSRS however; KCPSRS is not a local political subdivision; therefore, **Oversight** will not reflect a fiscal impact to their organization.

ASSUMPTION (continued)

Officials from the **Joint Committee on Public Employee Retirement's (JCPER)** review of this legislation indicates that it would modify the criteria by which the board may award a benefit increase. (Section 169.324) This legislation also would increase the employer contribution rate and also provide mechanisms for its reduction if the retirement system becomes one hundred percent funded and also mandate when the employers transfer employer contributions to the retirement system. (Sections 169.350 & 169.360)

JCPER's review of this legislation would indicate such provisions would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10).

Kansas City Public School Retirement System as of January 1, 2017

		Funded Ratio
Assets: Market Value	\$631,442,613	64.3%
Actuarial Value	\$684,412,437	69.7%
Liabilities:	\$981,514,827	

Actuarially Determined Contribution Rate (PY 16)

Employer:	9.61%	\$18,656,156
Employee:	9.00%	\$17,471,946 (estimate)
Total:	18.61%	\$36,128,102(estimate)

Covered Payroll: \$194,132,739

**Oversight** assumes the KCPSRS, the Kansas City School District, the Kansas City Charter Schools (22 schools) and the Kansas City Public Library are all members of the KCPSRS.

**Oversight** also assumes the employers contribution rate will increase from the current 9% to 10.5% in FY 2019, to 12.0% in FY 2020 and a 1% increase thereafter until the system is 100% funded.

The GASB 68 Audit reported the Kansas City School District's annual contribution amount was \$9,586,293 year ending December 31, 2016. **Oversight** assumes the 2016 Kansas City School District total salaries are \$106,514,370 (\$9,586,293/ 9% (Current rate)) for KCPSRS contributing employees. The table below outlines the estimated effect the changes of this proposal will have on the Kansas City School District using \$106,514,370 salaries as a baseline number for all three years.

ASSUMPTION (continued)

	Year ended 12/31/2016 Employee Contribution	2019 Rate 10.5%	2020 Rate 12.0%	Years thereafter, limited to 1% increase (13%)
District Contribution	\$9,586,293	\$11,184,009	\$12,781,724	\$12,781,724 - \$13,846,868
Fiscal Impact of increase		\$1,597,716	\$1,597,716	\$0 - \$1,065,144
Fiscal Impact of 2021 Increase (half year)				\$0 - \$532,573

**Oversight** notes the numbers from the table are based on calendar year and therefore assumes the following cost to the school district.

FY 19 (July 2018- June 2019) = \$798,858 ( $\$1,579,716 / 2$ )

FY 20 (July 2019 - June 2020) = \$1,579,716

FY 21 (July 2020 - June 2021) = \$798,858 - \$1,331,430 ( $\$798,858 + \$532,573$ )

**Oversight** assumes based on the JCPER's response, the Actuarially Determined Employer Contribution is \$18,656,156. Oversight also assumes the Kansas City Charter Schools and the Kansas City Library's and other groups annual employer contribution is \$9,022,972 ( $\$18,656,156 - \$46,921$  (KCPSRS Employer Contribution) - \$9,586,293 (Kansas City Public School District's Employer Contribution). Oversight assumes the other groups' salaries are \$100,254,911 ( $\$9,022,942 / 9\%$  (Current rate)) for KCPSRS contributing employees. The table below outlines the estimated effect the changes of this proposal will have on the other local political subdivision groups using \$100,254,911 salaries as a baseline number for all three years.

ASSUMPTION (continued)

	Year ended 12/31/2016 Employee Contribution	2019 Rate 10.5%	2020 Rate 12.0%	Years thereafter, limited to 1% increase (13%)
Other Contribution	\$9,022,942	\$10,526,766	\$12,030,589	\$12,030,589 - \$13,033,138
Fiscal Impact of increase		\$1,503,824	\$1,503,824	\$0 - \$1,002,549
Fiscal Impact of 2021 Increase (half year)				\$0 - \$501,275

FY 19 (July 2018- June 2019) = \$751,912 (\$1,503,824 / 2)

FY 20 (July 2019 - June 2020) = \$1,503,824

FY 21 (July 2020 - June 2021) = \$751,912 - \$1,253,187 (\$751,912 + \$501,275)

For fiscal note purposes, **Oversight** will reflect a cost to local political subdivisions of \$1,550,770 in FY 2019 (\$798,858 (Kansas City Public School District increase in cost + \$751,912 (other groups increase in cost)), \$3,083,540 in FY 2020 and a range of \$1,550,770 - \$2,584,617 in FY 2021.

Officials from the Kansas City Public School District, Brookside Charter School, Crossroads Charter School, Ewing Marion Kauffman School, Frontier Schools, KIPP Kansas City Endeavor Academy did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Cost</u>	<u>(\$1,550,770)</u>	<u>(\$3,083,540)</u>	<u>(\$1,550,770 -</u>
Increased employer contribution rate			<u>\$2,584,617)</u>
<b>ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>(\$1,550,770)</u></b>	<b><u>(\$3,083,540)</u></b>	<b><u>(\$1,550,770 -</u> <u>\$2,584,617)</u></b>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill modifies provisions relating to the Public School Retirement System of Kansas City. The retirement system's funded ratio as of January 1st of the year preceding the year of a proposed increase shall be at least 100% before adjusting for the effect of the proposed increase.

The member contribution rate for 2019 and subsequent periods shall be 9% of compensation unless a lower member contribution rate applies as set forth in the bill.

Currently, the actuary for the retirement system determines the rate of contribution payable by employers each year. For calendar year 2019, the employer contribution rate shall be 10.5%.

From January 1, 2020, through June 30, 2021, the rate shall be 12%. For the 12-month period beginning July 1, 2021, and for each subsequent 12-month period beginning July 1 of each year, the employer contribution rate shall be determined as set forth in the bill.

The Board of Trustees shall certify to the employers the contribution rate to be effective for July 1, 2021, and for each following July 1st no later than six months prior to the date such rate is to be effective.

Starting January 1, 2019, each employer shall transfer its employer contributions to the retirement system promptly following the end of each payroll period at the time the employer transfers member contributions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.



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SOURCES OF INFORMATION

Kansas City Public School Retirement System  
Joint Committee on Public Retirement

Ross Strope

A handwritten signature in black ink, appearing to read "Ross Strope", with a stylized flourish at the end.

Acting Director  
February 5, 2018