State of Kansas
House of Representatives

State Capitol
Topeka, Kansas 66612
785-296-7696
steven.johnson@house.ks.gov

10197 S. Hopkins Rd.
Assaria, Kansas 67416
785-829-0319

Steven C. Johnson
Representative, 108th District

Thank you Chairman Kelly and members of the committee.

Starting nine years ago, I had the privilege of working with the chairman as we considered pension reform. The payments at that time were on an ever-increasing track to just over $2 billion in the last year of our current amortization. Through great effort, legislative leaders have worked to reduce the liability and those payments. While the current payment schedule remains daunting, we have made great progress.

During that time, the previous governor made recommendations to re-amortize the KPERS liability. One was very similar to the proposal that is before us today. While the amortization schedule is up the KPERS Board, the legislature has repeatedly rejected the idea of re-amortizing.

The reason is simple. While funding our pension liability is hard, putting it off only makes it harder. The interest rate of 7.75% compounds quickly. As the KPERS staff has shown, the cost of interest and a year of service is $631 million. If we pay more than that, we reduce our principal which in turn reduces future interest costs. If we make a payment below that amount, the liability and future interest grows.

The governor's proposal reduces the payment to over $100 million less than this cost. That results in annual interest costs of over $8 million, or more than $20,000 per day.

The KPERS actuary shared concerns regarding re-amortization. First was this concept which was referred to as "negative amortization" where the payments are actually growing the liability. Second was stretching the payments over a timeframe as long as 30 years.

There are different ways the KPERS board could choose to amortize the liability. Both the current and the governor's proposed schedules are based on a level percent of payroll. Negative amortization results in this method where the payments are relatively small causing the liability to grow for roughly the first half of the amortization period. Then the payments grow to larger numbers and the liability is extinguished in the last half of the period.

Another method is a level dollar amortization. This is more like traditional mortgage payments where we pay the interest and a small amount of principal in the first year. The payments are roughly a level dollar amount to pay off the liability over the time selected.

The KPERS board reviews re-amortization regularly. I believe at the appropriate time they will recommend the legislature consider such a move and would expect the level dollar method to be a possible payment structure.

At this point, we have come too far to go back to the way things were. We have exhausted many tools available to address the unfunded liability. The remaining task we have is to apply the required funds. Our current ending balance allows us some flexibility to address budget issues. Reducing KPERS contributions now would compound future issues of meeting growing needs. This is particularly concerning when we review the limited annual increases in many of our revenue streams.

Thank you for your consideration and I am happy to respond to questions at the appropriate time.

STATE GENERAL FUND RECEIPTS
July-January, FY 2019
(Dollars in Thousands)

	Actual FY 2018	FY 2019 Estimate*	FY 2019 Actual	Difference	Percent change relative to: FY 2018	Percent change relative to: Estimate
Property Tax/Fee:						
Motor Carriers	*$ 7,071*	*$ 6,500*	*$ 6,675*	*$ 175*	*(5.6) %*	*2.7 %*
Income Taxes:						
Individual	$ 1,877,646	$ 1,970,500	$ 1,916,110	$ (54,390)	2.0 %	(2.8) %
Corporation	160,099	197,400	225,308	27,908	40.7	14.1
Financial Inst.	20,928	20,600	18,984	(1,616)	(9.3)	(7.8)
Total	*$ 2,058,673*	*$ 2,188,500*	*$ 2,160,402*	*$ (28,098)*	*4.9 %*	*(1.3) %*
Excise Taxes:						
Retail Sales	$ 1,399,157	$ 1,397,600	$ 1,389,324	$ (8,276)	(0.7) %	(0.6) %
Compensating Use	241,819	253,100	253,404	304	4.8	0.1
Cigarette	71,779	69,600	71,278	1,678	(0.7)	2.4
Tobacco Products	5,147	5,200	5,257	57	2.1	1.1
Cereal Malt Beverages	855	910	881	(29)	3.0	(3.2)
Liquor Gallonage	12,061	11,730	12,217	487	1.3	4.2
Liquor Enforcement	44,290	44,840	44,430	(410)	0.3	(0.9)
Liquor Drink	6,750	6,900	7,045	145	4.4	2.1
Corporate Franchise	1,479	1,430	1,436	6	(2.9)	0.4
Severance	18,480	21,530	23,502	1,972	27.2	9.2
Gas	6,315	2,990	4,585	1,595	(27.4)	53.3
Oil	12,165	18,540	18,917	377	55.5	2.0
Total	*$ 1,801,817*	*$ 1,812,840*	*$ 1,808,774*	*$ (4,066)*	*0.4 %*	*(0.2) %*
Other Taxes:						
Insurance Premiums	$ 69,650	$ 60,300	$ 54,974	$ (5,326)	(21.1) %	(8.8) %
Miscellaneous	1,326	2,010	2,968	958	123.8	47.7
Total	*$ 70,976*	*$ 62,310*	*$ 57,942*	*$ (4,368)*	*(18.4) %*	*(7.0) %*
Total Taxes	***$ 3,938,537***	***$ 4,070,150***	***$ 4,033,793***	***$ (36,358)***	***2.4 %***	***(0.9) %***
Other Revenue:						
Interest	$ 9,924	$ 27,200	$ 25,825	$ (1,375)	160.2 %	(5.1) %
Transfers (net)	162,938	(62,260)	(59,891)	2,369	(136.8)	3.8
Agency Earnings & Misc	30,535	37,500	33,520	(3,980)	9.8	(10.6)
Total Other Revenue	***$ 203,397***	***$ 2,440***	***$ (546)***	***$ (2,986)***	***(100.3) %***	***(122.4) %***
TOTAL RECEIPTS	**$ 4,141,934**	**$ 4,072,590**	**$ 4,033,247**	**$ (39,344)**	**(2.6) %**	**(1.0) %**

* Consensus Estimate as of November 9, 2018.

Excludes a Certificate of Indebtedness of $600 million that must be redeemed prior to the end of the fiscal year.

Note: Details may not add to totals due to rounding.