

AN ACT relating to funding for Kentucky Teachers' Retirement System and making an appropriation therefor.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

➔Section 1. KRS 56.8605 is amended to read as follows:

As used in KRS 56.860 to 56.869:

- (1) "Authorized project" means:
 - (a) Any project approved by the General Assembly and included in an enacted budget; or
 - (b) Any project approved by the General Assembly that is certified by the secretary of the Finance and Administration Cabinet in accordance with the provisions of KRS 56.870, to be of a type that will independently produce revenues or will be payable from receipts of federal transportation funds that are projected by the commission to be sufficient to fully meet debt service, issuance costs, reserve fund requirements, insurance premiums, or any other expenditures necessary for financing so that no appropriation of state funds is required;
- (2) "Cabinet" means the Finance and Administration Cabinet;
- (3) "Commercial paper" means obligations that by their terms mature not more than three hundred sixty-six (366) days from the date of their issuance and that may be refunded;
- (4) "Commission" means the Kentucky Asset/Liability Commission;
- (5) "Estimated revenues" means the official revenue estimates established pursuant to KRS 48.120 on or before the dates on which tax and revenue anticipation notes are awarded to the purchaser;
- (6) "Financial agreements" means interest rate swaps, options, or other agreements between two (2) parties to exchange or have the conditional right to exchange interest rate exposure from fixed rate to variable rate or from variable rate to fixed

- rate, or to provide other economic benefit to an issuance of notes or a portfolio of notes, or to hedge the net interest margin of the Commonwealth;
- (7) "Financing agreement" means an agreement between the commission and the cabinet, or between the cabinet and a state agency, relating to the funding of projects or items associated with projects as described in KRS 56.867(3), a judgment against a state agency or the Commonwealth, or the finance or refinance of obligations owed under KRS 161.550(2) or 161.553(2) **or subsection (1)(b) of Section 4 of this Act**. The provisions of a financing agreement shall require either the cabinet to make payments to the commission relating to the commission's issuance of notes, or the state agency to make payments to the cabinet reimbursing the cabinet for its payments to the commission on the agency's behalf. The obligations of the cabinet or the state agency under a financing agreement shall be contingent upon appropriations by the General Assembly to the cabinet or to the agency for the payment of those obligations;
- (8) "Fixed-rate obligations" means obligations on which the interest rate remains constant to maturity;
- (9) "Funding notes" means notes issued under the provisions of KRS 56.860 to 56.869 by the commission for the purpose of funding:
- (a) Judgments, with a final maturity of not more than ten (10) years; and
 - (b) The finance or refinance of obligations owed under KRS 161.550(2) or 161.553(2) **or subsection (1)(b) of Section 4 of this Act**;
- (10) "Interest-sensitive assets" means tangible and intangible property held by the Commonwealth whose market value is dependent upon the level of interest rates;
- (11) "Interest-sensitive liabilities" means interest-bearing debts or other obligations of the Commonwealth or a state agency;
- (12) "Multimodal obligations" means obligations for which the time period for establishing the rate of interest may be selectively determined and altered;

- (13) "Net interest margin" means the net income or expense associated with the difference between the Commonwealth's interest-sensitive assets and interest-sensitive liabilities;
- (14) "Project notes" means notes issued under the provisions of KRS 56.860 to 56.869 by the commission with a final maturity of not more than twenty (20) years for the purpose of funding authorized projects, which may include bond anticipation notes;
- (15) "State agency" means any state administrative body, agency, department, or division as defined in KRS 42.005, and set out in KRS Chapter 12, or any board, commission, institution, state university, or division exercising any function of the Commonwealth;
- (16) "Tax and revenue anticipation notes" means notes that are issued under the provisions of KRS 56.860 to 56.869 by the commission with a final maturity that is no later than the last day of the fiscal year during which the tax and revenue anticipation notes are issued and that are issued in anticipation of estimated revenues to be received in that fiscal year; and
- (17) "Variable-rate demand obligations" means obligations on which the rate of interest is set by reference to a predetermined index or formula, by auction, by an agent that, in the sole judgment of the commission, has the financial expertise to establish market interest rates, or by similar means.

➔Section 2. KRS 56.868 is amended to read as follows:

- (1) The commission may issue and sell funding notes for the purposes of funding judgments against the Commonwealth or any state agency and financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) **or subsection (1)(b) of Section 4 of this Act.** Funding notes may be sold and issued in a manner and have terms relating to the payment of interest, principal, and premiums or discounts as market conditions warrant.
- (2) Appropriations requests for payment of principal and interest on funding notes shall

be made by the state agency against which a judgment has been rendered or, in the case of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) **or subsection (1)(b) of Section 4 of this Act**, to the Kentucky Teachers' Retirement System. Funding notes, together with interest thereon, shall be repaid from payments received by the commission from the cabinet under a financing agreement.

- (3) Funding notes may be issued for the following purposes:
 - (a) To pay for judgments, which shall include legal settlements, court-ordered actions against the Commonwealth or any state agency, and any part of any expense or cost incidental to legal settlements or court-ordered actions against the Commonwealth or any state agency;
 - (b) To finance or refinance obligations owed under KRS 161.550(2) or 161.553(2) **or subsection (1)(b) of Section 4 of this Act**; and
 - (c) To refund outstanding issues of funding notes.
- (4) The issuance of funding notes shall be subject to KRS 56.870, to approval by the State Property and Buildings Commission, and to review by the Capital Projects and Bond Oversight Committee pursuant to KRS 45.810.
- (5) The cabinet, in providing for the expenditure of funds for any of the purposes mentioned in this section, may provide by a financing agreement with the state agency so affected for the funding of the Commonwealth's or that state agency's judgment, and the state agency so affected is authorized to enter into a financing agreement with the cabinet for that purpose.
- (6) Funding notes shall not constitute a debt of the Commonwealth or any political subdivision thereof or a pledge of the faith and credit of the Commonwealth or any political subdivision, but the notes shall be payable solely from payments received under the financing agreement relating to the funding notes.

➔Section 3. Funding notes are authorized in an amount not to exceed three billion

three hundred million dollars (\$3,300,000,000) in fiscal year 2015-2016 for the Kentucky Asset/Liability Commission established in KRS 56.861 to finance or refinance obligations owed under subsection (1)(b) of Section 4 of this Act.

→Section 4. KRS 161.550 is amended to read as follows:

(1) (a) ~~[Beginning with July 1,]~~Each employer, except as provided under KRS 161.555, shall contribute annually to the Kentucky Teachers' Retirement System a permanent amount equal to that contributed by members of the retirement system it employs less the amount contributed by employees under KRS 161.540(1)(c), plus an additional three and one-fourths percent (3.25%) of the total of salaries of members of the retirement system it employs to discharge the system's unfunded obligations with interest assumed by the state and to provide funding to the medical insurance fund as provided under KRS 161.420(5). If the board of trustees establishes a trust fund under 26 U.S.C. sec. 115, the board may deposit the employer contribution dedicated to retiree health in that trust fund.

(b) 1. *Effective July 1, 2015, and for each year thereafter, the state shall pay the additional contributions needed to fund the Kentucky Teachers' Retirement System pension fund on an actuarially sound basis as determined by the systems actuarial valuation completed in accordance with KRS 161.400. The amount payable under the provisions of this paragraph shall be in addition to the amounts provided under paragraph (a) of this subsection and shall be based upon the results of the actuarial valuation completed immediately prior to the budget biennium in which the contributions are payable.*

2. *If funding for past statutory benefit improvements under subsections (1) and (2) of Section 5 of this Act is repurposed and utilized to fund debt service authorized by Sections 1, 2, and 3 of this Act, then the*

remaining amortized payments payable under the provisions of subsections (1) and (2) of Section 5 of this Act for any funds utilized to fund debt service shall be added to the amount payable by the state under subparagraph 1. of this paragraph for the duration of the remaining amortization period established by subsections (1) and (2) of Section 5 of this Act.

(c) It is the intent of the General Assembly to:

1. Phase into the full contribution rate to the pension fund, as provided by paragraphs (a) and (b) of this subsection, using the 2015-2016 fiscal year pension contributions from employers and the state as a base and incrementally increasing direct state appropriations to the pension fund on a pro rata basis beginning in fiscal year 2016-2017 and continuing to fiscal year 2024-2025; and
2. Utilize proceeds from the funding notes authorized under Sections 1, 2, and 3 of this Act to pay the additional state appropriations required by paragraph (b) of this subsection for fiscal year 2015-2016, and for any state appropriations payable under paragraph (b) of this subsection that are not funded under the phase-in schedule of direct state appropriations established by subparagraph 1. of this paragraph.

- (2) In addition to the required contributions in subsection (1) of this section, the state shall contribute annually to the Kentucky Teachers' Retirement System a percentage of the total salaries of the state-funded and federally funded members it employs to pay the cost of health insurance coverage for retirees who are not eligible for Medicare and who retire on or after July 1, 2010, less the amounts that are otherwise required to be paid by the retirees under KRS 161.675. The Kentucky

Teachers' Retirement System may also request an additional amount necessary to ensure payment of medical insurance costs through fiscal year 2015-2016 which shall not be subject to the limitations of paragraph (c) of this subsection. The board shall deposit funds in the medical insurance fund unless the board of trustees has established a trust fund under 26 U.S.C. sec. 115 for this purpose. In this case, the board may deposit the employer contribution in that trust fund. This contribution shall be known as the state medical insurance fund stabilization contribution. The percentage to be contributed by the state under this subsection:

- (a) Shall be determined by the retirement system's actuary for each biennial budget period;
- (b) May be suspended or adjusted by the General Assembly if in its judgment the welfare of the Commonwealth so demands; and
- (c) Shall not exceed the lesser of the actual benefit cost for retirees not eligible for Medicare who retire on or after July 1, 2010, or the amount contributed by employers under subsection (3) of this section.

(3) Effective July 1, 2010, all local boards of education, agencies, and organizations identified in KRS 161.220(4), with the exception of those institutions identified under paragraphs (b) and (n) of KRS 161.220(4), shall make a contribution for each payroll on behalf of their active employees who participate in the Kentucky Teachers' Retirement System in an amount equal to the percentage of payroll of those active employees, according to the schedule as follows:

July 1, 2010.....	Twenty-five hundredths percent (.25%)
July 1, 2011.....	One-half percent (.50%)
July 1, 2012.....	One percent (1.0%)
July 1, 2013.....	One and one-half percent (1.5%)
July 1, 2014.....	Two and twenty-five hundredths percent (2.25%)
July 1, 2015, and thereafter.....	Three percent (3.0%)

- (4) Institutions identified under KRS 161.220(4)(b) and (n) shall make a contribution for each payroll on behalf of their active employees who participate in the Kentucky Teachers' Retirement System of an amount equal to a percentage of these employees' payroll that is actuarially equivalent to the percentage contributed by local boards of education, agencies, and organizations identified under subsection (3) of this section, not to exceed the percentages established under the schedule set forth in subsection (3) of this section. The actuarial equivalent to be contributed under this subsection shall be determined by the Kentucky Teachers' Retirement System's actuary.
- (5) When the medical insurance fund established under KRS 161.420(5) achieves a sufficient prefunded status as determined by the Kentucky Teachers' Retirement System's actuary, the board of trustees shall recommend to the General Assembly that the contributions required under subsections (3) and (4) of this section shall, in an actuarially accountable manner, be either decreased, suspended, or eliminated.
- (6) Each employer shall remit the required employer contributions to the retirement system under the terms and conditions specified for member contributions under KRS 161.560. The state shall provide annual appropriations based upon estimated funds needed to meet the requirements of KRS 161.155; 161.168; 161.507(4); 161.515; 161.545; 161.553; 161.605; 161.612; and 161.620(1), (3), (5), (6), and (7). In the event an annual appropriation is less than the amount of these requirements, the state shall make up the deficit in the next biennium budget appropriation to the retirement system. Employer contributions to the retirement system are for the exclusive purpose of providing benefits to members and annuitants and these contributions shall be considered deferred compensation to the members.

➔Section 5. KRS 161.553 is amended to read as follows:

- (1) The cost of providing statutory benefit improvements for annuitants may be funded by annual appropriations from the state **or proceeds from funding notes authorized**

by Sections 1, 2, and 3 of this Act on an actuarial amortized basis over the lifetime of the annuitants. The schedules in paragraphs (a), (b), and (c) of this subsection are the annual appropriations which shall be made by the state for benefit improvements approved in the respective fiscal years or ~~biennia~~^{bienniums} prior to July 1, ~~2016~~^[2010]:

- (a) Cost-of-Living ~~2015-2016~~^[2010-2011] Allowance ~~[1994-1996]~~
 - ~~[1996-1998] \$4,459,000~~
 - ~~[1998-2000] \$15,333,900~~ through 2012-2013
 - ~~\$7,938,600 in 2013-2014]~~
 - 2000-2002 \$7,227,700~~[\$12,511,400]~~ through 2014-2015
 - ~~and~~
 - ~~\$7,227,700 in 2015-2016]~~
 - 2002-2004 \$21,405,700 through 2021-2022
 - and
 - \$11,204,100 in 2022-2023
 - 2004-2006 \$15,413,700 through 2023-2024
 - and
 - \$7,421,400 in 2024-2025
 - 2006-2008 \$15,730,200 through 2025-2026
 - and
 - \$7,104,600 in 2026-2027;
- (b) Minimum Value ~~2015-2016~~^[2010-2011] Annuities
 - 2002-2004 \$3,375,900 through 2016-2017
 - and

		\$2,027,800 in 2017-2018; and
(c) Sick Leave 2015-2016 [2010-2011]		Each Succeeding Fiscal Year
Allowance		
[1998-2000	\$4,660,300	\$4,660,300 through 2012-2013
		<i>and</i>
		\$2,425,900 in 2013-2014]
2000-2002 <u>\$3,579,100</u> [\$6,167,100]		[\$6,167,100 through 2014-2015
		<i>and</i>
		\$3,579,100 in 2015-2016]
2002-2004	\$5,337,000	\$5,337,000 through 2021-2022
		<i>and</i>
		\$3,022,800 in 2022-2023
2004-2006	\$5,480,300	\$5,480,300 through 2023-2024
		<i>and</i>
		\$2,558,700 in 2024-2025
2006-2008	\$5,814,400	<u>\$5,646,400</u> [\$5,814,400] through 2025-2026
		<i>and</i>
		<u>\$3,331,200</u> [\$3,499,200] in 2026-2027
2008-2010 <u>\$5,042,700</u> [\$8,969,000]		<u>\$4,926,000</u> [\$8,969,000] through 2027-2028
		<i>and</i>
		<u>\$2,355,000</u> [\$6,281,300] in 2028-2029.
2010-2012 <u>\$5,198,100</u> [\$6,516,600]		<u>\$5,198,100</u> [\$13,674,800] through 2029-2030
		<i>and</i>
		<u>\$2,723,900</u> [\$7,158,200] in 2030-2031
		<i>and</i>
<u>2012-2014</u>	<u>\$7,808,600</u>	<u>\$6,726,200 through 2031-2032</u>
		<i>and</i>

		<u>\$3,357,900 in 2032-2033</u>
<u>2014-2016</u>	<u>\$9,448,000</u>	<u>\$9,448,000 through 2033-2034</u>
		<u>and</u>
		<u>\$4,920,700 in 2034-2035</u>

(2) The cost of providing the transitional funding for the state medical insurance fund stabilization contribution as provided by KRS 160.550(2) may be funded by annual appropriations from the state on an amortized basis. The schedule in this subsection is the annual appropriation which shall be made by the state in the respective fiscal years or biennia~~[biennium]~~ prior to July 1, 2016~~[2010]~~:

Amortization of	2010-2011	Each Succeeding Fiscal Year
Transitional Funding		
2004-2006	\$13,325,100	\$13,325,100 through 2014-2015
		and
		\$9,075,500 in 2015-2016
2006-2008	\$28,487,400	\$28,487,400 through 2016-2017
		and
		\$18,280,000 in 2017-2018
2008-2010	\$36,554,100	\$36,554,100 through 2018-2019
		and
		\$18,266,100 in 2019-2020]

Amortization of	<u>2013-2014</u> [2010-2011]	Each
Medical Subsidy		Succeeding Fiscal Year
2008-2010	\$2,574,100	\$2,574,100 through 2018-2019
		and
		\$1,345,200 in 2019-2020
<u>2010-2012</u>	<u>\$3,363,200</u>	<u>\$3,363,200 through 2020-2021</u>

and

\$1,798,700 in 2021-2022

(3) The present values of providing statutory cost-of-living increases for annuitants not included in subsection (1) of this section are to be assigned to the unfunded obligations of the retirement system and are identified as follows:

1986-1988	\$34,689,893
1990-1992	\$68,107,473
1992-1994	\$15,749,976

➔Section 6. 2014 Kentucky Acts Chapter 117, Part I, Operating Budget; A. General Government, 29. Teachers' Retirement System, at pages 15 and 16, is amended to read as follows:

29. TEACHERS' RETIREMENT SYSTEM

	2014-15	2015-16
General Fund	326,772,500	299,318,400
Restricted Funds	12,183,500	12,196,600
TOTAL	338,956,000	311,515,000

(1) State Medical Insurance Fund Financing: Notwithstanding KRS 161.420 and 161.550, a portion of the state employer contribution in a sufficient amount shall be allocated to the Teachers' Retirement System Medical Insurance Fund instead of the State Accumulation Fund.

(2) Dependent Subsidy for Retirees under age 65: Notwithstanding KRS 161.675(4)(a) and (b), from July 1, 2014, through June 30, 2016, for all retirees under the age of 65 who participate in the Kentucky Group Health Insurance Program through the Kentucky Teachers' Retirement System, the Kentucky Teachers' Retirement System Board of Trustees shall have the authority to pay the same dependent subsidy that Executive Branch agencies pay for their active employees who have similar coverage. The dependent subsidy is not subject to KRS 161.714. If the Board of Trustees provides

the dependent subsidy, the Board shall submit a report to the Interim Joint Committee on Appropriations and Revenue stating the cost of such action and providing the effect on the actuarial unfunded liability of the system.

(3) **Debt Service:** Included in the above General Fund appropriation is \$120,693,300 in fiscal year 2014-2015 and \$116,436,600 in fiscal year 2015-2016 for debt service on previously issued bonds.

(4) **Unfunded Liability:** It is the intent of the General Assembly in future biennial budget bills to pledge lesser debt service funding requirements for bonds previously issued for the Kentucky Teachers' Retirement System to provide debt service for funding notes issued on or after July 1, 2015, as authorized by Sections 1, 2, and 3 of this Act~~[reduce the unfunded pension liability]~~.

(5) **Administrative Costs:** In accordance with KRS 161.420, in each fiscal year an amount not greater than four percent of the receipts of the state accumulation fund shall be set aside in the expense fund or expended for the administration of the retirement system.

(6) **Amortization of Sick Leave:** Included in the above General Fund appropriation is \$4,527,300 in fiscal year 2014-2015 and \$9,448,000 in fiscal year 2015-2016 to provide the cost of amortizing the requirements of KRS 161.155, relating to sick leave, for members retiring during the 2014-2016 biennium.

(7) **Contribution for Retiree Medical Insurance:** Included in the above General Fund appropriation is an additional \$11,500,000 in fiscal year 2014-2015 and \$22,600,000 in fiscal year 2015-2016 to support the state's contribution for the cost of retiree health insurance for members not eligible for Medicare, who have retired since July 1, 2010, pursuant to KRS 161.550.

(8) Authorization of Funding Notes for Pension Fund: Funding notes are authorized in an amount not to exceed \$3,300,000,000 in fiscal year 2015-2016 to finance obligations owed under subsection (1)(b) of Section 4 of this Act, to be issued

by the Kentucky Asset/Liability Commission. Included in the above General Fund appropriation is \$116,798,700 in fiscal year 2015-2016 for funding of past statutory benefit improvements as provided by subsections (1) and (2) of Section 5 of this Act that shall be used as debt service for the notes.