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Kansas Lays Groundwork for \$1 Billion Pension Bond Sale.

(Reuters) - Kansas has begun a search for underwriters to sell \$1 billion of taxable pension bonds that won final approval this week, the state's Development Finance Authority said on Friday.

A bill signed into law Wednesday by Governor Sam Brownback authorizes 30-year bonds backed by annual state appropriations and limits the bond interest rate to 5 percent.

Potential underwriting firms have a May 1 deadline to reply to a request for qualifications for the deal.

The authority said no decision has been made on the timing or the structure for the bond sale.

Proceeds from the bond sale would flow to the Kansas Public Employee Retirement System, boosting its funded ratio to 66 percent from 60.7 percent and lowering the unfunded liability to \$6.28 billion from \$7.26 billion, according to a legislative report on the bill.

Kansas sold \$500 million of insured pension bonds through the authority in 2004 with interest rates topping out at 5.5 percent for bonds due in 2034.

States and local governments have sold about \$105 billion of taxable pension bonds since 1986, according to a July 2014 report by the Center for Retirement Research at Boston College. The practice, which relies on the assumption that invested proceeds will result in higher returns than the interest cost on the bonds, has come under scrutiny particularly in the wake of Detroit's \$1.4 billion issuance that was tied in part to soured interest-rate swaps that helped drive the city to file the biggest-ever municipal bankruptcy in 2013.

By REUTERS

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(Reporting by Karen Pierog; Editing by Leslie Adler)