

March 10, 2015

The Honorable Steven Johnson, Chairperson
House Committee on Pensions and Benefits
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2287 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2287 is respectfully submitted to your committee.

HB 2287 would require the Kansas Public Employees Retirement System (KPERS) to identify all investments in scrutinized companies within 45 days after the effective date of the bill. "Scrutinized companies" would be defined as any company that has, with actual knowledge, on or after August 5, 1996, made an investment of \$20.0 million or more in Iran's petroleum sector which directly or significantly contributes to the enhancement of Iran's ability to develop petroleum resources. Once those companies are identified, KPERS would be required to engage the companies by encouraging them to cease their scrutinized business activities or make them inactive in order to avoid divestment. If the companies fail to do so within 90 days, KPERS would be required to divest of those investments within 12 months.

Within 30 days of compiling the list of scrutinized companies, KPERS would be required to file a report with the Joint Committee on Pensions, Investments and Benefits that includes the companies and their activities in the Iran petroleum energy sector. After the initial report is submitted, KPERS must file an annual report with the Committee that includes a summary of correspondence with the companies; all investments which were sold, redeemed or divested; all prohibited investments remaining; and all publicly traded securities held directly by the state. The provisions of the bill would expire upon the occurrence of certain foreign policy actions by the United States.

KPERS indicates that the precise fiscal effect from the enactment of HB 2287 is difficult to estimate. The bill would require administrative costs relating to third party research services to help identify the scrutinized companies and for additional staff time by agency investment personnel to identify companies; correspond with the companies; communicate required divestment to investment managers; prepare and present reports to the KPERS Board of Trustees and the Joint Committee on Pensions, Investments and Benefits; and monitor investment

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holdings. Costs for the research services are estimated to be approximately \$20,000 per year and the time requirements by investment staff could be the equivalent of 0.50 FTE Investment Analyst position.

KPERS would also incur transaction fees for the sale of divested investments and reinvesting them elsewhere. While the specific transaction costs from HB 2287 are unknown, based on a current market value of \$4.3 billion for the international equity portfolio, these costs could range from \$2.2 million to \$2.6 million per year. KPERS further indicates that the bill has the potential to create opportunity costs from lost investment opportunities that would occur because of an inability to invest in scrutinized companies. The estimated value of the missed investment opportunities is unknown. However, if the above figure for the current market value of the international equity portfolio is used, the value of lost investment opportunities could approach \$2.2 million per year. Any fiscal effect associated with HB 2287 is not reflected in the FY 2016 Governor's Budget Report.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Faith Loretto, KPERS