

March 9, 2022

The Honorable Rick Billinger, Chairperson  
Senate Committee on Ways and Means  
Statehouse, Room 548-S  
Topeka, Kansas 66612

Dear Senator Billinger:

**SUBJECT:** Fiscal Note for SB 518 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 518 is respectfully submitted to your committee.

SB 518 would enact the Kansas Reliable Energy Investment Protection Act and would require the Kansas Public Employees Retirement System (KPERS) Board to divest from investments with companies boycotting energy companies. The bill would require the State Treasurer to prepare, maintain, and provide to the KPERS Board a list of all financial companies that boycott energy companies. Finally, the bill would prohibit any state agency from entering into a contract with a company for goods or services with a company that boycotts energy companies.

KPERS indicates that the costs associated with SB 518 include administrative costs, loss of potential investment opportunity, and transaction costs. The bill would require existing staff to monitor and maintain compliance with the new investment restrictions and estimates two existing investment positions would spend 25.0 percent of working hours monitoring compliance with the bill. While no additional staffing is anticipated, the bill would divert current staffing resources, making it more difficult to produce the maximum possible investment performance at a prudent level of risk. The agency is not currently aware of any subscription service that would monitor financial companies that boycott energy companies. However, if a research subscription would be created, KPERS estimates the annual cost would be approximately \$25,000, based on the System's previous experience with other divestment-related research subscriptions.

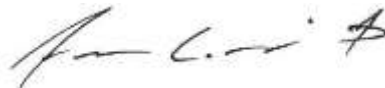
KPERS notes that there are potential costs to the system, based on the transaction costs associated with divestment, and tracking error costs from limiting the financial companies that can be invested in. The transaction costs are estimated to be five to ten basis points of the market value

of the fund's public equity portfolio (\$13.6 billion market value on December 31, 2021) and tracking error costs are estimated to be 30 to 50 basis points of the market value of the fund's public equity portfolio. The combined transaction costs and tracking error costs for the fund's public equity portfolio related to divestment of "listed financial companies" are estimated at \$47.7 million to \$81.7 million per year. While this would be an estimate based on the agency's understanding of the extent divestment would be required, the estimate highlights that SB 518 has the potential for creating significant financial and opportunity costs for the agency's investment portfolio. Additionally, if the bill would cause the agency not to be able to contract with external investment managers who provide the "best in class" investment strategies, the annual investment management fees may increase or investment performance may reduce, leading to lower total returns from the investment portfolio.

The State Treasurer reports that the enactment of the bill would require additional FY 2023 expenditures totaling \$97,912 from the State General Fund, including \$95,000 for 1.00 FTE position (including fringe benefits) and \$2,912 for other operating expenditures, including computer and software licensing. The new position would evaluate financial statements and other information to make boycott determinations as required by the bill. In addition, the agency would also require additional subscriptions to financial and investment publications to conduct research and to monitor companies. However, the cost for these additional subscriptions cannot be estimated.

The Department of Administration indicates that the Office of Procurement currently does not have staff to support the additional requirements for state contracts as required by the bill. The agency would need 1.00 FTE position to create and manage records related to monitoring the requirements of the bill at an annual cost of approximately \$60,000 (including fringe benefits) from the State General Fund, beginning in FY 2023. Any fiscal effect associated with SB 518 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,



Adam Proffitt  
Director of the Budget

cc: Jarod Waltner, KPERS  
Celeste Chaney-Tucker, Department of Administration  
John Hedges, Office of the Treasurer