

January 24, 2012

The Honorable Mitch Holmes, Chairperson
House Committee on Pensions and Benefits
Statehouse, Room 166-W
Topeka, Kansas 66612

Dear Representative Mitch Holmes:

SUBJECT: Fiscal Note for HB 2411 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2411 is respectfully submitted to your committee.

HB 2411 would require the Kansas Public Employee Retirement System (KPERS) to identify all KPERS investments in "scrutinized companies" that have made an investment of \$20.0 million or more in Iran's petroleum sector. Once those companies are identified, KPERS would be required to encourage the companies to cease any business activities to avoid divestment by KPERS. If the companies fail to cease business activities within 90 days of being notified, KPERS would be required to divest of those investments within 12 months. In addition, the bill would require KPERS to file a report with the Joint Committee on Pensions, Investments and Benefits regarding its affected investments, along with a list of investments that have been divested.

According to KPERS, enactment of HB 2411 would increase the cost of the agency's administration relating to identifying "scrutinized companies" through subscriptions to third-party research services, and through administrative costs of staff time required to correspond with affected companies and to prepare and present the required reports. In addition, the retirement system would incur transaction fees for the sale of any affected investments in "scrutinized companies," as well as reinvestment in other alternative investments. KPERS estimates that the cost to subscribe to a third-party research service would be approximately \$10,000 per year. In addition, one of KPERS' international equity managers estimates that transaction costs to comply with HB 2411 could be approximately 6 to 7 basis points of the international equity portfolio, depending on the extent of the divestment activity required. However, the agency does not estimate a cost of this activity. In addition, the agency estimates that it may require additional staff time of a 0.25 FTE investment analyst position to comply with the divestment requirements. However, the agency does not estimate the cost of the additional staff time required. Any fiscal effect associated with HB 2411 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,



Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Faith Loretto, KPERS