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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

April 1, 2013

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 2383 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2383 is respectfully submitted to your committee.

HB 2383 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 them 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. The agency would also be required to file a report with the Joint Committee on Pensions, Investments and Benefits listing the scrutinized companies, all investments which were divested, all investments remaining in scrutinized companies, and all publicly traded securities held by the state. The report must be filed within 30 days after the list is created and annually for all subsequent filings. 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 2383 is difficult to estimate. The bill would require administrative costs relating to third party research services to help identify the scrutinized companies and to 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 holdings. Costs for the research services are estimated to be approximately $19,000 per year and the time requirements by investment staff could be the equivalent of 0.25 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 are unknown, it is believed that they could range in the millions of dollars.

KPERS further indicates that the bill has potential to reduce investment income as a result of lost investment opportunities from an inability to invest in scrutinized companies. The reduction is difficult to estimate and could vary widely but it is expected that the lost revenue could also be in the millions of dollars. Any fiscal effect associated with HB 2383 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

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

cc: Faith Loretto, KPERS