SESSION OF 2018

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2444

As Recommended by House Committee on
Financial Institutions and Pensions

Brief*

HB 2444 would repeal language that prohibited the Kansas Public Employees Retirement System (KPERS or the Retirement System) from investing in companies with operations in Sudan and related reporting requirements to the Legislature. The bill also would repeal the associated indemnification for the KPERS Board of Trustees (Board) and its employees, research firms, and investment managers.

Background

The bill was introduced by the Joint Committee on Pensions, Investments and Benefits (Joint Committee) during its meeting on November 27, 2017, following its acknowledgment of receipt of the annual Sudan Divestment Report from KPERS. The Joint Committee determined the exposure to investments with significant business operations in Sudan remained low and consistent over time. It was estimated to be $55.7 million, or 0.29 percent, of the total KPERS investment portfolio for the time period ending September 30, 2017.

In 2007, legislation was enacted that restricted the Retirement System's investments in companies engaged in business operations in Sudan. Kansas law contains a repeal provision that triggered when the United States revoked its sanctions against Sudan. KPERS, in consultation with its outside legal counsel, determined the presidential executive

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org order issued on October 12, 2017, revoked the substantive portion of the sanctions mentioned in statute, but a few provisions of the original sanctions, such as relating to diplomatic offices and agriculture products, remain in place. A KPERS representative suggested the Legislature consider repealing KSA 2017 Supp. 74-4921c and 74-4921d for purposes of clarity.

During the hearing before the House Committee on Financial Institutions and Pensions, a representative of KPERS spoke in favor of the bill, stating the Board has given direction to its investment managers to cease divestment practices and monitoring. The conferee observed divestment restrictions reduce the size of the available investment universe, which could cost KPERS in foregone returns and increase trading expenses.

There was no opponent or neutral testimony.

According to the fiscal note prepared by the Division of the Budget, in consultation with KPERS, the precise fiscal effect of the divestiture requirements is unknown. Assuming an international equity market value of $4.9 billion, the negative investment impact from divestiture requirements, which includes transaction costs and tracking errors from lost investment opportunities, may have ranged between $17.5 million and $28.0 million annually. The bill would reduce annual administrative costs by $23,415. Any fiscal effect associated with the bill is not reflected in *The FY 2019 Governor's Budget Report*.