

**Kentucky Public Pensions Authority
Ad Hoc Budget Committee – Special Meeting
January 23, 2026, at 10:00 AM EST (9:00 AM CT)
Live Video Conference/Facebook Live**

AGENDA

1. Call to Order	William O'Mara
2. Opening Statement	Legal Services
3. Roll Call	Sherry Rankin
4. Public Comment	Sherry Rankin
5. Approval of Meeting Minutes* - October 30, 2025	William O'Mara
6. Hybrid % Discussion	Mike Lamb
a. Background	Mike Lamb
b. Review Allocation of Compliance Officer Costs	Mike Lamb
c. Review of Communications Personnel Costs	Mike Lamb & Amy Fields
d. Review of IT Costs including IT Personnel	Mike Lamb & Dominique McKinley
e. Review of Investment Fees and their relation to the Hybrid % Allocation	Mike Lamb & Steve Willer
7. Finalize the Hybrid allocation % for FY 2027*	Mike Lamb
8. Schedule next meeting date and time*	William O'Mara
9. Adjourn*	William O'Mara

****Committee Action May Be Taken***

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
SPECIAL-CALLED MEETING
AD HOC BUDGET COMMITTEE
OCTOBER 30, 2025, 1:00 P.M., E.T.
VIA LIVE VIDEO
TELECONFERENCE**

At the October 30, 2025, Special-Called Meeting of the Ad Hoc Budget Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara and Prewitt Lane. Other Trustees present: Lynn Hampton (KRS), David Adkins (KRS), and George Cheatham (CERS). Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Michael Lamb, Victoria Hale, Nathan Goodrich, Elizabeth Smith, Vonda Donoho, Phillip Cook, Sandy Hardin, and Sherry Rankin.

1. Mr. O'Mara called the meeting to order.
2. Mr. Goodrich read the Opening Statement.
3. Ms. Rankin called roll.
4. There were no ***Public Comments***.
5. Mr. O'Mara introduced the agenda item ***Approval of Meeting Minutes – September 22, 2025*** (*Video 00:06:39 to 00:07:04*). Mr. Lane made a motion to approve the minutes as presented. Mr. O'Mara seconded the motion. The motion passed unanimously.
6. Mr. O'Mara introduced the agenda item ***FY2027 DRAFT HYBRID Percentages for CERS & KRS Boards*** (*Video 00:07:04 to 01:15:36*). Mr. O'Mara introduced the agenda item concerning the FY2027 Draft Hybrid Percentages for the CERS and KRS Boards. Mr. Lamb provided a detailed overview of the historical context and methodology behind the allocation of administrative expenses between the two boards. This process began

with a March 2022 memo to the KPPA Board following the restructuring of governance for CERS, KRS, and SPRS. A work group, including Mr. O’Mara, Mr. Lane, Mr. Eager, Mr. Owens III, and Mr. Chilton, was formed to develop a fair allocation method in accordance with KRS 61.505. Historically, expenses were allocated based on membership headcount, with some tracked separately through trust and investment budgets. The group evaluated various allocation bases—membership, assets under management (AUM), and a 50/50 split—recognizing that not all administrative costs scale with membership and that AUM primarily affects investment-related expenses.

Ultimately, a hybrid model was developed that blends these approaches. Administrative expenses over \$100,000 were categorized and assigned the most appropriate allocation method. For FY22, the \$48 million budget was split using this hybrid model, resulting in approximately \$29.9 million allocated to CERS and \$18 million to KRS. These percentages were retroactively applied to FY22 and used again for FY23. Following a KPPA Board recommendation, legal advocacy expenses were reclassified to be allocated by membership rather than a 50/50 split, slightly adjusting the hybrid percentages. Mr. Lamb emphasized the importance of equity, simplicity, and transparency in the allocation process, noting a shift from budgeted to actual expenses to better reflect true costs. He also highlighted the impact of vacant positions on budget accuracy and proposed using actual expenditures in arrears to avoid misallocations.

Personnel categories were reviewed, with executives and legal staff split 50/50, advocacy allocated by membership, and investment by AUM. Operational costs such as IT and facilities were generally allocated by membership. Mr. O’Mara noted the transition from budget-based to actual expense-based allocations, which Mr. Lamb confirmed and elaborated on. In response to Mr. Chilton’s question, Mr. Lamb confirmed that personnel costs for Mr. Owens and himself are directly allocated to CERS and KRS respectively, rather than by membership. He reviewed the historical classification of employee costs used in calculating hybrid percentages, explaining that earlier calculations used budgeted positions, though some were unfilled. Currently, actual personnel costs—including salary,

benefits, employer contributions, and payouts—are used for hybrid percentage development.

Mr. Lamb detailed staffing changes across fiscal years 2022 through 2025, including new hires, internal transfers, and terminations, and how these affected cost allocations. He noted that total personnel costs increased from \$31.8 million in FY22 to \$35 million in FY24. Additionally, he highlighted the need for discussion regarding the classification of Carrie Bass' position, as she transitioned from reporting to the CIO of the Office of Investments to reporting directly to him.

Mr. Cheatham inquired about the categorization of the Communications and Information Technology departments, prompting Mr. Lamb to clarify that these roles are currently grouped under “all other KPPA staff” and allocated by membership. Mr. Lamb then reviewed the updated hybrid percentage calculation, which now uses actual personnel costs and current membership and asset data as of June 30, 2025. He explained that direct costs such as legal fees, general counsel, and election expenses are excluded from the hybrid allocation and charged directly to the respective systems. After adjustments, approximately \$42.9 million in administrative expenses remain to be allocated across major categories including personnel, legal contracts, audit services, actuarial services, medical examiners, IT, and other operational costs. Mr. Lamb demonstrated how changes in allocation methodology affect distribution, noting the current hybrid split is 64.65% for CERS and 35.35% for KRS. He presented this data earlier than usual to allow time for discussion and welcomed input on categorization concerns, including compliance.

Mr. Cheatham raised questions about allocating Compliance, Information Technology, and Communications costs, suggesting a 50/50 split for the compliance officer role. Mr. Lamb agreed, noting the position had shifted from investment-specific duties to broader KPPA compliance, and committee members supported the revised allocation. The discussion then turned to IT and Communications, with Mr. Lamb explaining that these costs are currently allocated by membership due to their broad service to KPPA members. He acknowledged arguments for both membership-based and 50/50 allocation and

demonstrated how a 50/50 split would impact the hybrid percentage. Mr. Chilton and Mr. Lane emphasized that IT services primarily support member-facing systems, reinforcing the rationale for membership-based allocation, while Mr. Lamb remained open to committee direction.

Mr. Owens stressed the importance of reviewing past decisions and maintaining an annual review process to ensure assumptions remain valid. He argued that foundational IT infrastructure and support personnel are required by both systems, justifying a 50/50 allocation. Mr. Lane countered that IT costs should be based on complexity and membership size, which more accurately reflect demand. Mr. Cheatham agreed that hardware and software costs are largely fixed and should be split evenly, though personnel costs may vary. He expressed concern that CERS may be covering a disproportionate share of expenses and suggested that shared services should be viewed more leniently, given that both systems would incur similar IT costs independently.

Mr. Lamb offered a different view, noting that IT costs also include data storage and system complexity, which scale with the number of members and employers. He argued that while maintenance costs might be shared equally, development and storage costs could be weighted toward the larger system. Mr. O'Mara acknowledged the complexity and recommended inviting IT and investment staff to provide further insight. On the investment side, Mr. Lane explained that KPPA staff negotiate fees using institutional leverage, often securing lower costs than peers. Mr. Chilton added that pooled investments benefit both systems and cautioned against cost-sharing arrangements that might violate IRS rules, supporting membership-based allocation as a fair method.

Mr. Cheatham clarified he was not suggesting KRS pay CERS but appreciated acknowledgment that KRS benefits from pooled investments. He cited research showing significant savings from fee reductions and suggested these benefits be considered when allocating shared costs. Mr. Chilton responded that many cost categories are already split 50/50, though Mr. Cheatham noted current discussions involve more nuanced areas. Mr. Lane challenged the use of fixed fee breakpoints, explaining that institutional asset

management fees are negotiated. Mr. Cheatham agreed but maintained that larger investments typically yield lower fees. Mr. Owens added that signed contracts reflect actual breakpoints and benefits, and that this data could be shared. Mr. O'Mara reiterated the need for input from IT and investment staff before making decisions. Mr. Cheatham agreed to share with Mr. Lane the data he referenced during the discussion.

Mr. Cheatham emphasized the importance of understanding departmental spending, suggesting deeper conversations with staff to clarify cost allocations. He reiterated that shared investment benefits could inform how other expenses are divided. Mr. O'Mara acknowledged Mr. Lamb's early initiation of the discussion and thanked him for his presentation, noting that communications and IT require further review, while investment issues may fall outside the committee's immediate scope. Mr. Lamb confirmed that Communications and IT costs can be broken down further, including contractor and software expenses. He was open to discussing investment-related savings if the committee deemed it appropriate. Mr. Lane suggested that Steve Willer, CIO, could provide insight into investment negotiations, noting KPPA's favorable client status. When asked about priorities, both Mr. Lamb and Mr. Lane recommended addressing Communications first, followed by IT, and then Investments, due to increasing complexity.

- 7/8. With no other budget topics for discussion, Mr. O'Mara introduced the agenda item ***Schedule Next Meeting Date and Time*** (*Video 01:15:36 to 01:17:54*). In closing, it was noted that the next meeting will likely take place after the holidays. Mr. Lamb offered to coordinate with Ms. Rankin to propose a date.
9. There being no further business, Mr. O'Mara ***adjourned*** the meeting and thanked everyone for their contributions.

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CERTIFICATION

I do certify that I was present at this meeting, and I have recorded above the action of the Committee on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in connection with this meeting.

Recording Secretary

I, as Chair of the Ad Hoc Budget Committee of the Kentucky Public Pensions Authority, do certify that the Minutes of the meeting held on October 30, 2025, were approved by the KPPA Ad Hoc Budget Committee on January 23, 2026.

Committee Chair

I have reviewed the Minutes of the KPPA Ad Hoc Budget Committee meeting on October 30, 2025, for form, content, and legality.

Office of Legal Services

FY 2027 Hybrid Percentage

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KPPA
Kentucky Public Pensions Authority





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KPPA ADMINISTRATIVE COSTS

KRS 61.505 11(a) – The KPPA Board has the responsibility of determining how to prorate, assign or allocate to CERS and KRS all expenses incurred by or on behalf of KPPA.

Beginning with FY2022 the KPPA Board concluded, based on a workgroup recommendation, that a Hybrid method would be used to allocate Administrative Costs.

This Hybrid method strives to be: Equitable, Transparent, Simple, and Consistent.

The Hybrid Method results in one percentage (The Hybrid %) per CERS/KRS that is used to allocate non system specific administrative costs throughout the year.

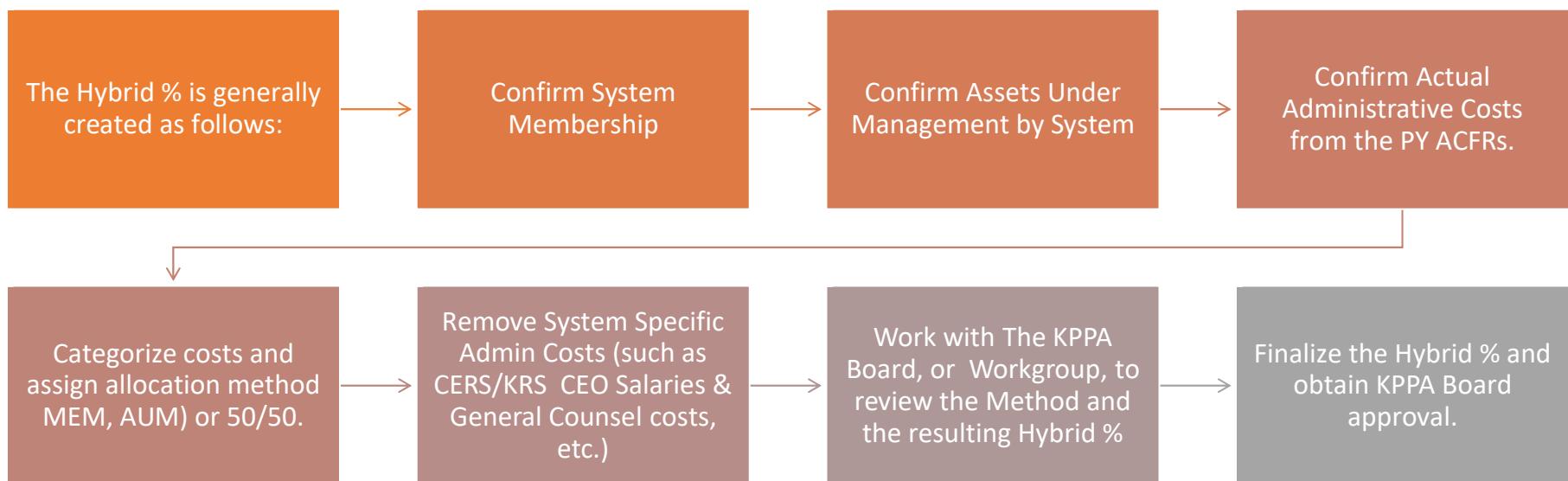
The KPPA Board, or their Workgroup, reevaluates the Hybrid Method and resulting Hybrid % every fiscal year.

The CERS and the KRS Boards determine the allocation of Administrative Costs assigned by the KPPA Board to the individual plans under their administrative purview. (e.g. Hazardous, Non-Hazardous).



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The Hybrid %





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Historical Hybrid Percentage

HYBRID %	FY2022	FY2023	FY2024	FY2025	FY2026
CERS	62.68%	62.68%	64.34%	64.16%	64.35%
CERS NH	57.58%	57.58%	59.13%	59.00%	59.15%
CERS HAZ	5.10%	5.10%	5.21%	5.16%	5.20%
KRS	37.32%	37.32%	35.66%	35.84%	35.65%
KERS NH	32.965%	32.965%	31.434%	31.514%	31.266%
KERS HAZ	3.635%	3.635%	3.517%	3.617%	3.688%
SPRS	0.720%	0.720%	0.709%	0.709%	0.696%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%



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Confirm System Membership (SAFR)



6/30/2025(SAFR)(Page (7&22-26))		
271,400	61.09%	66.46%
23,873	5.37%	
130,535	29.38%	
15,602	3.51%	33.54%
2,883	0.65%	
444,293	100.00%	100.00%





Confirm AUM by System (ACFRs)

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Fair Values (FV)				
For the fiscal year ended June 30, 2025 (\$ in Thousands)				
Pension Plans	CERS Nonhazardous		CERS Hazardous	
	Fair Value	% of Total FV	Fair Value	% of Total FV
Equity				
Public Equity	\$5,112,914	48.47%	\$1,833,216	48.26%
Private Equity	598,551	5.67%	215,309	5.67%
Fixed Income				
Core Fixed Income	1,321,158	12.52%	482,239	12.70%
Specialty Credit	2,068,423	19.61%	738,949	19.45%
Cash	322,052	3.05%	147,478	3.88%
Inflation Protected				
Real Estate	543,196	5.15%	172,873	4.55%
Real Return	583,464	5.53%	208,587	5.49%
Total Portfolio	\$10,549,758		\$3,798,651	

6/30/2025 (ACFR)		
\$ 10,549,758	49.55%	67.39%
\$ 3,798,651	17.84%	
\$ 5,058,466	23.76%	
\$ 1,145,899	5.38%	32.61%
\$ 740,068	3.48%	
21,292,842	100.00%	100.00%

CERS ACFR Page 74 and KRS ACFR Page 86. and page 16 of the SAFR

Fair Values (FV)						
For the fiscal year ended June 30, 2025 (\$ in Thousands)						
Pension Plans	KERS Nonhazardous		KERS Hazardous		SPRS	
	Fair Value	% of Total FV	Fair Value	% of Total FV	Fair Value	% of Total FV
Equity						
Public Equity	\$1,657,689	32.77%	\$495,927	43.28%	\$243,628	32.92%
Private Equity	213,317	4.22%	66,355	5.79%	30,617	4.14%
Fixed Income						
Core Fixed Income	1,333,701	26.36%	109,976	9.60%	193,957	26.21%
Specialty Credit	1,014,248	20.05%	281,591	24.57%	142,693	19.28%
Cash	112,776	2.23%	39,011	3.41%	21,234	2.87%
Inflation Protected						
Real Estate	235,696	4.66%	63,726	5.56%	35,530	4.80%
Real Return	491,039	9.71%	89,313	7.79%	72,409	9.78%
Total Portfolio	\$5,058,466		\$1,145,899		\$740,068	



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Confirm Actual ADMIN COSTS from the 6/30/2025 ACFRs : Total = \$46,516,509.10

CERS TOTAL ADMIN = \$29,544

(ACFR page 58)

Schedule of Administrative Expenses	
As of June 30, 2025 (\$ in Thousands)	
	2025
Salaries	\$13,162
Benefits	9,305
Professional Services	1,774
Information Technology	2,304
Communications	470
Office & Equipment Rent	690
Travel/Conferences	83
Other Operating Expenses	315
Insurance Plans' Administration	1,441
Total Administrative Expenses	\$29,544

KRS TOTAL ADMIN - \$16,972

(ACFR page 66)

Schedule of Administrative Expenses	
As of June 30, 2025 (\$ in Thousands)	
	2025
Salaries	\$7,356
Benefits	5,198
Professional Services	1,426
Information Technology	1,287
Communications	224
Office & Equipment Rent	385
Travel/Conferences	46
Other Operating Expenses	176
Insurance Plans' Administration	874
Total Administrative Expenses	\$16,972



ADJUST ADMIN
COSTS to
(\$42,970,533)

ADMIN EXPENSES				Remove non-Pension and System Specific Costs	DRAFT
	CERS	KRS	Total		
Salaries	\$13,161,997.46	\$7,356,340.04	\$20,518,337.50	(\$364,155.66)	\$20,154,181.84
Benefits	\$9,305,095.34	\$5,197,858.74	\$14,502,954.08		\$14,502,954.08
Professional Services	\$1,774,275.81	\$1,426,470.79	\$3,200,746.60	(\$735,713.69)	\$2,465,032.91
Information Technology	\$2,304,310.31	\$1,287,195.78	\$3,591,506.09		\$3,591,506.09
Communications	\$469,830.48	\$224,093.63	\$693,924.11		\$693,924.11
Office & Equipment Rent	\$689,821.00	\$385,336.42	\$1,075,157.42		\$1,075,157.42
Travel/Conferences	\$82,563.74	\$46,120.39	\$128,684.13		\$128,684.13
Other Operating Expenses	\$315,313.27	\$174,592.22	\$489,905.49	(\$130,812.88)	\$359,092.61
Insurance Fund Administration	\$1,441,167.87	\$874,125.81	\$2,315,293.68	(\$2,315,293.68)	\$0.00
Total Administrative Expenses	\$29,544,375.28	\$16,972,133.82	\$46,516,509.10	(\$3,545,975.91)	\$42,970,533.19



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FY 2027 – Hybrid % - CALCULATION

BUDGET CATEGORY	6/30/2025 Actual Amounts		
	Total	CERS	KRS
Membership	444,293	295,273	149,020
	100.00%	66.46%	33.54%
AUM (in thousands)	\$ 21,292,842	\$ 14,348,409	\$ 6,944,433
	100.00%	67.39%	32.61%
PERSONNEL			
KPPA Staff (not including K/C CEOs)	MEM	\$ 27,672,897	\$ 18,391,407
	50/50	\$ 1,935,340	\$ 967,670
KPPA Legal	50/50	\$ 1,753,988	\$ 876,994
KPPA Legal Advocacy	MEM	\$ 1,280,492	\$ 851,015
KPPA Investments	AUM	\$ 2,014,419	\$ 1,357,517
Subtotal		\$ 34,657,136	\$ 22,444,603
Legal Contracts that are not specific to C/K	50/50	\$ 361,487	\$ 180,743
Auditing	50/50	\$ 201,847	\$ 100,924
Actuarial Services	50/50	\$ 315,119	\$ 157,559
Medical Examiners / Hearing Officers	MEM	\$ 1,321,326	\$ 878,153
Other (Facility, HR consults, Misc)	50/50	\$ 265,255	\$ 132,628
Subtotal		\$ 2,465,033	\$ 1,450,007
OPERATIONAL			
Rentals - Building and Equipment	MEM	\$ 1,075,157	\$ 714,549
Information Technology	MEM	\$ 3,591,506	\$ 2,386,915
Other	MEM	\$ 1,181,701	\$ 785,358
CONTINGENCY	50/50	\$ -	\$ -
Subtotal		\$ 5,848,364	\$ 3,886,823
TOTAL COSTS FOR HYBRID CALCULATION		\$ 42,970,533	\$ 27,781,433
HYBRID PERCENTAGE		64.65%	35.35%



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FY 2027 – Hybrid % - CALCULATION

Moving the CO to 50/50 vs. AUM reduced the CERS Hybrid % and increased the KRS % by 0.06% for FY 2027. On a \$45M of allocated administrative costs that equals approx. \$27k.

BUDGET CATEGORY		6/30/2025 Actual Amounts		
		Total	CERS	KRS
	Membership	444,293	295,273	149,020
	100.00%	66.46%	33.54%	
AUM (in thousands)	\$ 21,292,842	\$ 14,348,409	\$ 6,944,433	
	100.00%	67.39%	32.61%	
PERSONNEL				
KPPA Staff (not including K/C CEOs)	MEM	\$ 27,672,897	\$ 18,391,407	\$ 9,281,490
KPPA Execs & CO	50/50	\$ 2,077,477	\$ 1,038,738	\$ 1,038,738
KPPA Legal	50/50	\$ 1,753,988	\$ 876,994	\$ 876,994
KPPA Legal Advocacy	MEM	\$ 1,280,492	\$ 851,015	\$ 429,477
KPPA Investments	AUM	\$ 1,872,282	\$ 1,261,731	\$ 610,551
Subtotal		\$ 34,657,136	\$ 22,419,886	\$ 12,237,250
Legal Contracts that are not specific to C/K	50/50	\$ 361,487	\$ 180,743	\$ 180,743
Auditing	50/50	\$ 201,847	\$ 100,924	\$ 100,924
Actuarial Services	50/50	\$ 315,119	\$ 157,559	\$ 157,559
Medical Examiners / Hearing Officers	MEM	\$ 1,321,326	\$ 878,153	\$ 443,173
Other (Facility, HR consults, Misc)	50/50	\$ 265,255	\$ 132,628	\$ 132,628
Subtotal		\$ 2,465,033	\$ 1,450,007	\$ 1,015,026
OPERATIONAL				
Rentals - Building and Equipment	MEM	\$ 1,075,157	\$ 714,549	\$ 360,608
Information Technology	MEM	\$ 3,591,506	\$ 2,386,915	\$ 1,204,591
Other	MEM	\$ 1,181,701	\$ 785,358	\$ 396,342
CONTINGENCY	50/50	\$ -	\$ -	\$ -
Subtotal		\$ 5,848,364	\$ 3,886,823	\$ 1,961,541
TOTAL COSTS FOR HYBRID CALCULATION		\$ 42,970,533	\$ 27,756,715	\$ 15,213,818
HYBRID PERCENTAGE			64.59%	35.41%



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Discussion of Communications Division Administrative Costs



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FY 2027 – Hybrid % - CALCULATION

Moving Communications personnel costs to 50/50 vs. MEM further reduced the CERS Hybrid % and increased the KRS % by an additional 0.21% for FY 2027. On \$45M of allocated admin costs that equals approx \$94.5k.

BUDGET CATEGORY	6/30/2025 Actual Amounts		
	Total	CERS	KRS
Membership	444,293	295,273	149,020
	100.00%	66.46%	33.54%
AUM (in thousands)	\$ 21,292,842	\$ 14,348,409	\$ 6,944,433
	100.00%	67.39%	32.61%
PERSONNEL			
KPPA Staff (not including K/C CEOs)	MEM	\$ 27,122,360	\$ 18,025,520
KPPA Execs & CO	50/50	\$ 2,077,477	\$ 1,038,738
KPPA Legal	50/50	\$ 1,753,988	\$ 876,994
Communications	50/50	\$ 550,537	\$ 275,269
KPPA Legal Advocacy	MEM	\$ 1,280,492	\$ 851,015
KPPA Investments	AUM	\$ 1,872,282	\$ 1,261,731
Subtotal		\$ 34,657,136	\$ 22,329,267
Legal Contracts that are not specific to C/K	50/50	\$ 361,487	\$ 180,743
Auditing	50/50	\$ 201,847	\$ 100,924
Actuarial Services	50/50	\$ 315,119	\$ 157,559
Medical Examiners / Hearing Officers	MEM	\$ 1,321,326	\$ 878,153
Other (Facility, HR consults, Misc)	50/50	\$ 265,255	\$ 132,628
Subtotal		\$ 2,465,033	\$ 1,450,007
OPERATIONAL			
Rentals - Building and Equipment	MEM	\$ 1,075,157	\$ 714,549
Information Technology	MEM	\$ 3,591,506	\$ 2,386,915
Other	MEM	\$ 1,181,701	\$ 785,358
CONTINGENCY	50/50	\$ -	\$ -
Subtotal		\$ 5,848,364	\$ 3,886,823
TOTAL COSTS FOR HYBRID CALCULATION		\$ 42,970,533	\$ 27,666,097
HYBRID PERCENTAGE		64.38%	35.62%



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Discussion of Enterprise and Technology Services Division Administrative Costs



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Discussion of Investment Fees and their relation to the Hybrid %



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FY2026	DRAFT FY2027			CHANGE		
64.35%	64.65%	64.59%	64.38%	0.30%	0.24%	0.03%
59.15%	59.43%	59.37%	59.18%	0.28%	0.22%	0.03%
5.20%	5.23%	5.22%	5.21%	0.03%	0.02%	0.01%
35.65%	35.35%	35.41%	35.62%	-0.30%	-0.24%	-0.03%
31.266%	30.963%	31.013%	31.198%	-0.30%	-0.25%	-0.07%
3.688%	3.701%	3.707%	3.729%	0.01%	0.02%	0.04%
0.696%	0.684%	0.685%	0.689%	-0.01%	-0.01%	-0.01%
100.00%	100.00%	100.00%	100.00%	0.00%	0.00%	0.00%

FY 2027 – Hybrid % - CALCULATION