

**Kentucky Public Pensions Authority
Ad Hoc Budget Committee – Special Meeting
June 20, 2024, at 11:00 AM EST (10:00 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* - June 6, 2024 | William O’Mara |
| 6. Approval of KPPA Board Budget Memo and Presentation* | Mike Lamb |
| 7. Any additional budget related items* | William O’Mara |
| 8. Adjourn* | William O’Mara |

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

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
SPECIAL CALLED MEETING
AD HOC BUDGET COMMITTEE
JUNE 6, 2024, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the June 6, 2024, 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. Staff members present were CERS CEO Ed Owens, III, KRS CEO John Chilton, David Eager, Michael Board, Michael Lamb, Rebecca Adkins, Dominique McKinley, Chris Johnson, Phillip Cook, and Sherry Rankin.

Mr. O’Mara called the meeting to order.

Mr. Board read the Opening Statement.

Ms. Rankin called roll.

There being no ***Public Comment*** received, Mr. O’Mara introduced the agenda item ***Approval of Meeting Minutes - May 9, 2024 and May 23, 2024 (Video 00:05:56 to 00:06:29)***. Mr. Lane made a motion to approve the minutes as presented. Mr. O’Mara seconded the motion and the motion passed unanimously.

Mr. O’Mara introduced the agenda item ***CERS and KRS Board Memos regarding Hybrid Percentages (Video 00:06:29 to 00:10:26)***. Mr. Lamb began by reviewing the memos that have been prepared to present at the upcoming CERS Board Meeting on June 10, 2024 and the upcoming KRS Board Meeting on July 18, 2024. He noted that this Budget Committee has determined that the hybrid percentage for FY2025 for administrative expenses is as follows: CERS 64.16% and KRS 35.84%. He explained that these memos will be presented to seek approval of the FY2025 allocation of the hybrid percentage between the plans of the respective Boards.

For CERS plans, based on membership as of June 30, 2023, the recommended allocation of the FY2025 hybrid percentage is as follows: CERS Nonhazardous 59% and CERS Hazardous 5.16%.

For KRS plans, also based on membership as of June 30, 2023, the recommended allocation of the FY2025 hybrid percentage is as follows: KERS Nonhazardous 31.514%; KERS Hazardous 3.618% and SPRS 0.709%. Mr. Lamb noted a typographical error on the memo that will be corrected prior to presenting to the KRS Board.

Mr. Lane made a motion to approve the memos, with the edits noted, to be presented to the CERS Board and KRS Board respectively. Mr. O'Mara seconded the motion and the motion passed unanimously.

Mr. O'Mara introduced the agenda item ***Discuss FY2025 Investment Budget and Administrative Budget*** (Video 00:10:27 to 00:48:30). First, Mr. Lamb provided a final review and answered questions regarding the FY2025 Investment Budget. Mr. Lane made a motion to approve the FY2025 Investment Budget as presented to go before the KPPA Board for final approval. Mr. O'Mara seconded the motion and the motion passed unanimously.

Next, Mr. Lamb continued his review of the Draft FY2025 Administrative Budget focusing on costs related to Personnel, Legal Division, and IT in detail. Mr. Lane made a motion to approve the FY2025 Administrative Budget as presented to go before the KPPA Board for final approval. Mr. O'Mara seconded the motion and the motion passed unanimously.

Mr. Lamb then reviewed a draft of the KPPA Budget Memo which will set forth this Committee's recommendations to the KPPA Board for the approval of the FY2024 separation expenses to be paid by the CERS System, the FY2025 hybrid percentage amounts, and the FY2025 KPPA Investment and Administrative Budgets. Mr. Lamb stated that that a final draft would be reviewed at the next Committee meeting.

Next, Mr. Lamb shared a Draft KPPA Budget Policy and sought direction from the Committee regarding the details to be included in the policy. After receiving some direction and input, Mr. Lamb indicated that additional work would be necessary before the policy will be ready for Committee approval. He stated that work is continuing on a Trustee Education session regarding the budget process with expectations of bringing both back to this Committee for further review soon.

Lastly, the Committee confirmed their next meeting date of June 20, 2024, at 11:00 a.m.

Mr. Eager commended Mr. Lamb and the Committee members for their efforts regarding this budget process. Mr. O'Mara also commended Mr. Lamb for his rigor during this process and expressed his gratitude for the contributions that each person made during the budget process.

There being no further business, Mr. O'Mara *adjourned* the meeting.

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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 June 6, 2024, were approved by the KPPA Ad Hoc Budget Committee on June 20, 2024.

Committee Chair

I have reviewed the Minutes of the KPPA Ad Hoc Budget Committee meeting on June 6, 2024, for form, content, and legality.

Office of Legal Services



KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director
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Kentucky Public
Pensions Authority

To: Kentucky Public Pensions Authority (KPPA) Board
From: Mike Lamb, KPPA, Chief Financial Officer
Date: June 27, 2024
Subject: FY 2025 KPPA Budget Workgroup recommendations.

DRAFT

The FY 2025 KPPA Budget Workgroup (the Workgroup) was finalized during the April 25, 2024, KPPA Annual Board meeting and includes:

- Mr. William O'Mara, KPPA Board Member and County Employees Retirement System (CERS) Trustee,
- Mr. C. Prewitt Lane, KPPA Board Member and Kentucky Retirement System (KRS) Trustee,
- Mr. David Eager, KPPA Executive Director,
- Mr. Ed Owens III, CERS CEO,
- Mr. John Chilton, KRS CEO,
- Ms. Rebecca Adkins, KPPA Deputy Executive Director,
- Mr. Mike Lamb, KPPA Chief Financial Officer

In addition, multiple KPPA employees contributed to and participated in the Workgroup meetings.

The Workgroup makes the following recommendations to the KPPA Board:

RECOMMENDATIONS:

1. Approve the FY 2024 separation expenses of **\$402,707** to be paid by the CERS.
2. Approve the FY 2025 hybrid percentage of 64.16% for the CERS and 35.84% for the KRS to be applied to the administrative expenses of KPPA and continue to allow the KRS and the CERS Boards to determine the split for the plans under their administrative purview.
3. Approve the FY 2025 KPPA administrative budget of \$48,981,500, as presented.
4. Approve the FY 2025 KPPA investment budget of \$12,599,350 as presented.

SEPARATION EXPENSES:

In accordance with KRS 61.505(11)(a)(2), the KPPA Board is responsible for determining initial costs and any ongoing annual administrative and investment expenses that are attributable solely to establishing a separate CERS board and the KPPA. These costs shall be paid by the CERS until June 30, 2024. The FY 2024 costs are \$402,707 as presented below.

Type of Expenses	Comments	FY 2021	FY 2022	FY 2023	FY 2024
Staff Salaries and Benefits	Staff Implementation Hours	\$ 182,426	\$ -	\$ -	\$ -
	CERS CEO	-	135,423	172,723	207,927
	KRS CEO	-	41,384	79,168	86,927
Legal Fees	CERS General Counsel	-	95,428	108,718	59,901
	KRS General Counsel	-	52,661	42,099	3,445
CERS, KRS, and KPPA Board Meeting Expenses	Initial meetings for set up of new boards	18,196	-	-	-
Logo Design, Signage; Badges; etc.	KPPA, KRS, and CERS Logos, office signs, employee badges.	11,007	1,434	-	-
Additional Board Member & CEE Costs	Training, equipment, software, etc.	-	6,210	-	-
Total		\$ 211,629	\$ 332,540	\$ 402,708	\$ 358,201

FY 2025 HYBRID PERCENTAGE:

In accordance with KRS 61.505(11)(a), the KPPA Board has the responsibility of determining how to prorate, assign or allocate costs incurred by or on behalf of the KPPA to both the CERS and the KRS.

For FY 2022, 2023, and 2024, the KPPA board utilized a hybrid percentage methodology to allocate administrative costs to the CERS and the KRS.

The Workgroup has evaluated the current hybrid percentage methodology for FY 2025 and recommends continued use of this method including: using actual costs (from FY 2023), review of employee classification, and excluding direct and/or separation costs from the calculation.

1. Actual Costs. In FY 2022 and 2023 the hybrid % was calculated using budgeted administrative costs. Beginning with the FY 2024 hybrid %, KPPA began to utilize actual costs (used FY 2022 actual costs) in calculating the FY 2024 Hybrid %. (FY 2023 actual costs were not used as they would not have been finalized until well into FY 2024). For the FY 2025 hybrid % recommendation the Workgroup has used FY 2023 actual costs in the calculation.

- Employee Classification. The workgroup has reviewed all employee classifications (and related costs) for use in the calculation of the hybrid % as follows:

FY 2025 hybrid percentage positions (using actual FYE 2023 Costs)					
KPPA Personnel Executive	KPPA Personnel Legal	KPPA Personnel Legal Advocacy	KPPA Personnel Investments	Board CEOs	All Other KPPA Staff
50/50	50/50	MEM	AUM	SPECIFIC	MEM
David Eager	Andrea Freadreacea	Carrie Slayton	Anthony Chiu	Ed Owens	
Rebecca Adkins	Barry Seidl	Deidra Douglas	Brian Caldwell	John Chilton	
Erin Surratt	Beth Camic	Jessica Buck	Jared Crawford		
Michael Board	Carrie Bass	Kari Clark	Joe Gilbert		
Michael Lamb	Chase O'Dell	Kathy Rupinen	Steve Willer		
Sherry Rankin	Crystal Smith	Kevin Edelman			
Ashley Gabbard	Jennifer Korth	Laura Stevens			
Katie Park	Jenny Jones	Leigh Ann Davis			
	Jessica Beaubien	Nathan Goodrich			
	Jillian Hall				
	JJ Alleman				
	Kristi Wackowski				
	Lisa Perry				
	Robin Goodlett				
	Stephanie Hold				
	Tracy Chambers				
	Vicki Hale				
\$1,733,603	\$1,657,653	\$1,238,645	\$1,681,612	\$251,405	\$26,422,717
Total					\$32,985,635
Yellow highlight represents changes from prior year					

FY 2024 hybrid percentage positions (using actual FYE 2022 Costs)					
KPPA Personnel Executive	KPPA Personnel Legal	KPPA Personnel Legal Advocacy	KPPA Personnel Investments	Board CEOs	All Other KPPA Staff
50/50	50/50	MEM	AUM	SPECIFIC	MEM
David Eager	Andrea Freadreacea	Carrie Slayton	Anthony Chiu	Ed Owens	
Rebecca Adkins	Barry Seidl	Deidra Douglas	Carol Johnson	John Chilton	
Erin Surratt	Beth Camic	Kari Clark	Jared Crawford		
Michael Board	Carrie Bass	Kathy Rupinen	Joe Gilbert		
Sherry Rankin	Chase O'Dell	Kevin Edelman	Steven Herbert		
Ashley Gabbard	Crystal Smith	Laura Stevens	Steve Willer		
	Jenny Jones	Leigh Ann Davis			
	Jessica Beaubien	Nathan Goodrich			
	Jillian Hall				
	Kristi Wackowski				
	Lisa Perry				
	Tracy Chambers				
	Vicki Hale				
\$1,454,854	\$1,270,529	\$815,697	\$1,769,497	\$176,807	\$26,489,558
Total					\$31,976,941

- Excluding direct and/or separation costs from the calculation. Since the FY 2022 and 2023 hybrid % was calculated using budgeted administrative costs, that hybrid % included all budgeted administrative costs, including CEO salaries, budgeted legal costs (that were specific to the CERS or the KRS), as well as costs eventually deemed to be separation costs. While all

these costs were charged to the appropriate plan, the inclusion of them in the budget impacted the calculation of the hybrid percentage. By using actual costs, the Workgroup was able to isolate these costs and exclude them in the hybrid percentage calculation for FY 2025.

FY 2025 hybrid percentage: CERS 64.16% and KRS 35.84%

BUDGET CATEGORY	6/30/2023 Actual Amounts			
		Total	CERS	KRS
	Membership	421,609 100.00%	277,371 65.79%	144,238 34.21%
AUM (in thousands)	\$ 16,708,475 100.00%	\$ 11,700,124 70.03%	\$ 5,008,351 29.97%	
PERSONNEL				
KPPA Staff	MEM	\$ 26,422,717	\$ 17,383,505	\$ 9,039,211
KPPA Exec	50/50	1,733,603	866,802	866,802
KPPA Legal	50/50	1,657,653	828,826	828,826
KPPA Legal Advocacy	MEM	1,238,645	814,905	423,741
KPPA Investments	AUM	1,681,612	1,177,633	503,979
Subtotal		\$ 32,734,230	\$ 21,071,671	\$ 11,662,559
Legal Contracts	50/50	476,416	238,208	238,208
Auditing	50/50	109,510	54,755	54,755
Actuarial Services	50/50	490,761	245,381	245,381
Medical Examiners / Hearing Officers	MEM	1,413,350	929,843	483,507
Other (Facility, HR consults, Misc)	50/50	131,005	65,503	65,503
Subtotal		\$ 2,621,042	\$ 1,533,689	\$ 1,087,353
OPERATIONAL				
Rentals - Building and Equipment	MEM	1,089,673	716,896	372,777
Information Technology	MEM	2,749,564	1,808,938	940,626
Other	MEM	1,007,434	662,791	344,643
CONTINGENCY	50/50	-	-	-
Subtotal		\$ 4,846,671	\$ 3,188,625	\$ 1,658,046
TOTAL COSTS FOR HYBRID CALCULATION		\$ 40,201,943	\$ 25,793,985	\$ 14,407,958
HYBRID PERCENTAGE		64.16% 35.84%		
PERSONNEL SEPARATION COSTS	100%	251,405	251,405	
CERS/KRS GENERAL COUNSEL	100%	150,817	150,817	
OTHER SEPARATION COSTS	100%	-	-	
CERS SPECIFIC COSTS (MOSTLY LEGAL)	100%	111,711	111,711	
KRS SPECIFIC COSTS (MOSTLY LEGAL)	100%	268,551		268,551
Subtotal of 6/30/2023 Direct Costs Removed from Hybrid		\$ 782,484	\$ 513,933	\$ 268,551
		\$ 40,984,427	\$ 26,307,919	\$ 14,676,509
(Depreciation/Amortization/Accruals)	Not Allocated	\$ 890,468		
TOTAL PENSION FUND ADMIN COSTS (PAGE 117 ACFR)		\$ 41,874,895		

FY 2025 hybrid percentage comparison:
 CERS (64.16% vs. 64.34%) and KRS (35.84% vs. 35.66%).

BUDGET CATEGORY	6/30/2023 Actual Amounts			6/30/2022 Actual Amounts			CHANGES			
	Total	CERS	KRS	Total	CERS	KRS	Total	CERS	KRS	
	Membership	421,609	277,371	144,238	410,082	268,788	141,294	11,527	8,583	2,944
	100.00%	65.79%	34.21%	100.00%	65.54%	34.46%	2.81%	3.19%	2.08%	
AUM (in thousands)	\$ 16,708,475	\$ 11,700,124	\$ 5,008,351	\$15,002,684	\$10,651,800	\$ 4,350,884	\$ 1,705,791	\$1,048,324	\$657,467	
	100.00%	70.03%	29.97%	100.00%	71.00%	29.00%	11.37%	9.84%	15.11%	
PERSONNEL										
KPPA Staff	MEM	\$ 26,422,717	\$ 17,383,505	\$ 9,039,211	\$26,489,558	\$17,361,256	\$ 9,128,302	\$ (66,841)	22,249	(89,090)
KPPA Exec	50/50	1,733,603	866,802	866,802	1,454,854	\$ 727,427	\$ 727,427	\$ 278,750	139,375	139,375
KPPA Legal	50/50	1,657,653	828,826	828,826	1,270,529	\$ 635,264	\$ 635,264	\$ 387,124	193,562	193,562
KPPA Legal Advocacy	MEM	1,238,645	814,905	423,741	815,697	\$ 534,608	\$ 281,089	\$ 422,948	280,297	142,651
KPPA Investments	AUM	1,681,612	1,177,633	503,979	1,769,497	\$ 1,256,343	\$ 513,154	\$ (87,884)	(78,710)	(9,175)
Subtotal		\$ 32,734,230	\$ 21,071,671	\$ 11,662,559	\$31,800,184	\$20,514,898	\$11,285,236	\$ 934,096	\$ 556,773	\$377,323
Legal Contracts	50/50	476,416	238,208	238,208	192,546	\$ 96,273	\$ 96,273	\$ 283,870	141,935	141,935
Auditing	50/50	109,510	54,755	54,755	141,883	\$ 70,941	\$ 70,941	\$ (32,373)	(16,186)	(16,186)
Actuarial Services	50/50	490,761	245,381	245,381	474,411	\$ 237,206	\$ 237,206	\$ 16,350	8,175	8,175
Medical Examiners / Hearing Officers	MEM	1,413,350	929,843	483,507	1,593,144	\$ 1,044,146	\$ 548,997	\$ (179,794)	(114,303)	(65,490)
Other (Facility, HR consults, Misc)	50/50	131,005	65,503	65,503	122,340	\$ 61,170	\$ 61,170	\$ 8,665	4,332	4,332
Subtotal		\$ 2,621,042	\$ 1,533,689	\$ 1,087,353	\$ 2,524,323	\$ 1,509,736	\$ 1,014,587	\$ 96,718	\$ 23,953	\$ 72,766
OPERATIONAL										
Rentals - Building and Equipment	MEM	1,089,673	716,896	372,777	1,103,226	\$ 723,054	\$ 380,172	\$ (13,553)	(6,158)	(7,394)
Information Technology	MEM	2,749,564	1,808,938	940,626	2,972,053	\$ 1,947,883	\$ 1,024,169	\$ (222,489)	(138,945)	(83,543)
Other	MEM	1,007,434	662,791	344,643	963,786	\$ 631,666	\$ 332,121	\$ 43,648	31,125	12,522
CONTINGENCY	50/50	-	-	-	-	\$ -	\$ -	\$ -	0	0
Subtotal		\$ 4,846,671	\$ 3,188,625	\$ 1,658,046	\$ 5,039,065	\$ 3,302,603	\$ 1,736,462	\$ (192,394)	\$ (113,978)	\$ (78,416)
TOTAL COSTS FOR HYBRID CALCULATION										
		\$ 40,201,943	\$ 25,793,985	\$ 14,407,958	\$39,363,522	\$25,327,237	\$14,036,285	\$ 888,421	\$ 466,747	\$371,673
HYBRID PERCENTAGE		64.16% 35.84%			64.34% 35.66%		CHANGE TO % -0.18% 0.18%			
PERSONNEL SEPARATION COSTS	100%	251,405	251,405		176,808	176,808				
CERS/KRS GENERAL COUNSEL	100%	150,817	150,817		148,088	148,088				
OTHER SEPARATION COSTS	100%	-	-		7,644	7,644				
CERS SPECIFIC COSTS (MOSTLY LEGAL)	100%	111,711	111,711		66,227	66,227				
KRS SPECIFIC COSTS (MOSTLY LEGAL)	100%	268,551		268,551	719,155		719,155			
Subtotal of 6/30/2023 Direct Costs										
Removed from Hybrid		\$ 782,484	\$ 513,933	\$ 268,551	\$ 1,117,922	\$ 998,767	\$ 719,155			
		\$ 40,984,427	\$ 26,307,919	\$ 14,676,509	\$40,481,444	\$25,726,004	\$14,755,441			
(Depreciation/Amortization/Accruals)	Not Allocated	\$ 890,468			\$ (739,000)					

On June 10, 2024, and on June 18, 2024, the CERS, and the KRS Boards of Trustees, respectively, approved their own internal allocation of the above hybrid percentages for the plans under their administrative purview as follows:

FY 2025 HYBRID %		
CERS Nonhazardous	59.00%	64.16%
CERS Hazardous	5.16%	
KERS Nonhazardous	31.514%	35.84%
KERS Hazardous	3.617%	
SPRS	0.709%	
Total	100.00%	100.00%

FY 2025 KPPA ADMINISTRATIVE BUDGET

The KPPA administrative budget is funded with restricted funds, meaning it is not a general fund appropriation. These restricted funds used for the administrative budget come from the five pension trusts funds administered by KPPA, and not the insurance trust funds. The administrative expenses are allocated among these five pension trust funds based on the approved hybrid %.

Despite the administrative budget being funded with restricted funds, KRS 61.505(11)(b), KRS 78.782(13) and KRS 61.645(13) require all KPPA, CERS and KRS administrative expenses be included in the Commonwealth’s biennial budget. Before October 1st of odd years, executive branch agencies submit a two-year budget request to the Office of the State Budget Director (OSBD) and to the Legislative Research Commission (LRC). Prior to this submission KPPA shall approve the biennial budget request (KRS 61.505(11)(b)).

OSBD assists the Governor’s Office in developing a budget bill. Simultaneously, LRC assists the legislature in developing a budget bill, and during the General Assembly’s session in even years, a biennial budget is passed. OSBD, LRC and the legislature can add to or subtract from the KPPA biennial budget request as the legislature deems necessary. For example, since KPPA staff are under the state’s personnel system, OSBD may add funds to the request to allow for a raise for state employees, and in some cases, due to budget cuts, all agencies budget submissions may be reduced.

Historical Administrative Budget Amounts	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
KPPA Budget Amount Requested	\$ 47,613,500	\$ 48,327,600	\$ 47,702,500	\$ 47,702,500	\$ 48,255,100	\$ 48,801,700	\$ 52,478,300
Budget Bill Approved Amount	\$ 47,307,300	\$ 47,702,500	\$ 48,888,200	\$ 48,005,500	\$ 50,184,500	\$ 50,440,800	\$ 48,981,500
Difference	\$ (306,200)	\$ (625,100)	\$ 1,185,700	\$ 303,000	\$ 1,929,400	\$ 1,639,100	\$ (3,496,800)

The proposed FY 2025 administrative budget total amount of \$48,981,500, has already been approved by the Commonwealth through this process. Today, the Workgroup is presenting the detailed administrative budget for the KPPA Board to approve.

The Workgroup reviewed historical spending by budget line item from FY 2019 through FY 2024. Accounting, executive, human resources, investment, IT, legal and other KPPA staff contributed to defining for the Workgroup the types of services provided by each budget line item, as well as multiple discussions on anticipated changes to existing expenditures and potential new expenditures. Furthermore, detailed analysis was performed on various line items in creating an accurately projected FY 2025 administrative budget.

Immediately below is the proposed FY 2025 administrative budget, and presented further below are summarized explanations of the Workgroups discussions and conclusions for significant line items:

ADMINISTRATIVE BUDGET (Page 1 of 2)

ADMINISTRATIVE EXPENSES	FY 2024 Admin Budget	FY 2025 PROPOSED ADMIN BUDGET	Budget Difference Year to Year	% Change Budget vs Budget
PERSONNEL				
Salaries	\$ 17,900,000	\$ 20,060,000	\$ 2,160,000	12.07% ¹
Salaries & Related Personnel Costs for 9 Positions that were requested through the Biennium Budget, but not yet granted.		\$ 1,740,000	1,740,000	21.79% ²
Wages(Overtime)	250,000	275,000	25,000	10.00%
Wages(Block50)	35,000	35,000	-	0.00%
Emp Paid FICA	1,294,772	1,560,000	265,228	20.48%
Emp Paid Retirement	12,033,015	9,930,000	(2,103,015)	-17.48% ³
Emp Paid Health Ins	2,687,500	2,875,000	187,500	6.98%
Emp Paid Life Ins	3,000	3,000	-	0.00%
Emp Paid Sick Leave	250,000	250,000	-	0.00%
Workers Compensation	12,000	15,000	3,000	25.00%
Unemployment	10,000	10,000	-	0.00%
Employee Training	25,000	25,000	-	0.00%
Other Personnel costs/benefits (Escrow for Admin, adoption, tuition, bonds)	20,000	20,000	-	0.00%
Subtotal	\$ 34,520,287	\$ 36,798,000	\$ 2,277,714	6.60%
LEGAL CONTRACTS				
Legal Hearing Officers	150,000	270,000	120,000	80.00% ⁴
Legal (SKO)	250,000	250,000	-	0.00%
Legal (FBT)	300,000	1,000,000	700,000	233.33% ⁵
Legal (Reinhart)	50,000	50,000	-	0.00%
Legal (Ice Miller)	300,000	300,000	-	0.00%
Legal (Branco)	100,000	100,000	-	0.00%
Legal (Dentons)	50,000	50,000	-	0.00%
Legal Expense	10,000	10,000	-	0.00%
Subtotal	\$ 1,210,000	\$ 2,030,000	\$ 820,000	67.77%
AUDITING				
Auditing	\$ 300,000	\$ 300,000	\$ -	0.00%
ACTUARIAL SERVICES				
Actuarial Services	\$ 500,000	\$ 525,000	\$ 25,000	5.00%
MEDICAL EXAMINERS / HEARING OFFICERS				
Medical Reviewers	\$ 1,800,000	\$ 1,800,000	\$ -	0.00%
OTHER PERSONNEL				
Miscellaneous Contracts	390,000	425,000	35,000	8.97%
Human Resources Consulting	10,000	10,000	-	0.00%
Facility Security Charges	100,000	75,000	(25,000)	-25.00%
Subtotal	\$ 500,000	\$ 510,000	\$ 10,000	2.00%
PERSONNEL TOTAL	\$ 38,830,287	\$ 41,963,000	\$ 3,132,714	8.07%

ADMINISTRATIVE BUDGET (Page 2 of 2)

ADMINISTRATIVE EXPENSES	FY 2024 Admin Budget	FY 2025 PROPOSED ADMIN BUDGET	Budget Difference Year to Year	% Change Budget vs Budget
OPERATIONAL			-	-
RENTALS - BUILDING & EQUIPMENT			-	-
Rent-Non-state Building	56,000	80,000	24,000	42.86%
Building Rental - PPW	1,000,000	1,000,000	-	0.00%
Copier Rental	105,000	90,000	(15,000)	-14.29%
Rental Carpool	5,500	5,000	(500)	-9.09%
Subtotal	\$ 1,166,500	\$ 1,175,000	\$ 8,500	0.73%
INFORMATION TECHNOLOGY				
eMARS Usage	50,000	50,000	-	0.00%
COT Charges	40,000	40,000	-	0.00%
Computer Equip./Software	4,100,000	\$ 4,140,000	40,000	0.98% ⁶
Subtotal	\$ 4,190,000	\$ 4,230,000	\$ 40,000	0.95%
OTHER OPERATIONAL				
Natural Gas & Electric	175,000	175,000	-	0.00%
Vehicle/Equip. Maintenance	1,000	1,300	300	30.00%
Postage	420,000	450,000	30,000	7.14% ⁷
Freight	200	200	-	0.00%
Printing (State & non-state)	100,000	100,000	-	0.00%
Insurance	10,000	7,500	(2,500)	-25.00%
Garbage Collection	6,500	7,000	500	7.69%
Conference Expense	50,000	50,000	-	0.00%
Office Supplies	100,000	90,000	(10,000)	-10.00%
Furniture & Office Equipment	12,000	30,000	18,000	150.00%
Travel (In-State)	16,500	16,500	-	0.00%
Travel (Out of State)	215,000	215,000	-	0.00%
Dues & Subscriptions	85,000	85,000	-	0.00%
Miscellaneous	55,000	55,000	-	0.00%
Telephone & Video Conference	125,000	115,000	(10,000)	-8.00%
Subtotal	\$ 1,371,200	\$ 1,397,500	\$ 26,300	1.92%
OPERATIONAL TOTAL	\$ 6,727,701	\$ 6,802,500	\$ 74,799	1.11%
Unallocated Reserve	4,882,812	216,000	(4,666,812)	-95.58% ⁸
ADMINISTRATIVE BUDGE AMOUNT	\$ 50,440,800	\$ 48,981,500	\$ (1,459,300)	-2.89%

SALARIES¹

The FY 2025 budget for salaries is \$2.16M higher than the FY 2024 amount due to several factors:

- (1) For FY 2024 KPPA budgeted for 250 full-time positions, and for FY 2025, KPPA is budgeting for 256 full-time positions, which would account for approximately \$600k of the increase.
 - a. KPPA had low turnover this past year, and
 - b. KPPA added two new hearing officer positions.
- (2) Many positions' prior year salaries have been increased above and beyond the statewide 6% increase that went into effect 7/1/2023.
 - a. This was due to the Personnel Cabinet's overall statewide position review and adjustment, as well as
 - b. KPPA's internal review and adjustment (with Personnel Cabinet approval) of retirement system counselor positions.
 - c. The combination of these reviews and adjustments accounts for approximately \$900k of salary increases beyond the 6% granted to all statewide employees.
- (3) All positions have a 3% statewide increase being accounted for effective 7/1/2024, which accounts for approximately \$600k of the increase.

Through the Personnel Cabinet, KPPA has 293 approved positions: 270 full time (FT) and 23 Interim, Intern, or part -time positions (same as prior year).

The Workgroup examined salaries by area, department, and position. They discussed with KPPA staff what vacant positions are likely to be filled, which positions are likely to remain vacant, and discussed the need for additional positions in certain areas. In addition, the Workgroup accounted for the five-year average annual turnover rate (11%), and the 3% raise for all state employees.

	Prior Year Budget FY2024		Current Year Budget - FY2025		Difference
	Positions	Salaries	Positions	Salaries	
Current FT Positions & Salaries	250	\$ 16,400,000	258	\$ 18,950,000	\$ 2,550,000
Vacant FT to be filled	10	\$ 600,000	10	\$ 900,000	\$ 300,000
Adjust for Turnover Ratio	(12)	\$ (700,000)	(12)	\$ (800,000)	\$ (100,000)
Additional FT Positions	2	\$ 200,000		\$ -	\$ (200,000)
Total for Full-Time Positions	250	\$ 16,500,000	256	\$ 19,050,000	\$ 2,550,000
Interim Positions to budget	7	\$ 400,000	7	\$ 425,000	\$ 25,000
Total to Budget For	257	\$ 16,900,000	263	\$ 19,475,000	\$ 2,580,000
State Raise	6%	\$ 17,900,000	3%	\$ 20,060,000	\$ 2,160,000

SALARIES & RELATED PERSONNEL COSTS²

During the biennium budget process, the KPPA Board approved nine (9) additional positions and the related costs for FY 2025. However, the final budget bill approved by the legislature did not approve that additional budget request. These additional positions are crucial to the implementation of statutory mandates, enhanced customer service, risk management and strategic initiatives of KPPA. Therefore, KPPA management is pursuing the addition of these positions through the Office of State Budget Director (OSBD) and intend to get them established in FY 2025. As such the Workgroup suggested designating a portion of the unallocated reserve specifically for the anticipated costs of those positions.

EMPLOYER PAID RETIREMENT³

Despite the significant increase in salaries, the FY 2025 proposed budget amount for employer paid retirement is significantly less than the PY FY 2024 budgeted amount. The OSBD memo dated April 24, 2024, indicates that the employer contribution rate for KERS nonhazardous plan participants for FY 2025 is 48.75%; whereas the prior year rate was 66.17%.

LEGAL HEARING OFFICERS⁴

For both FY 2023 and 2024 actual costs exceeded the budgeted amount as KPPA increased the hourly rate for the external hearing officers on contract and worked deliberately through the backload of cases. Recently, KPPA hired two in house hearing officers and has renewed contracts for external hearing officers, in a continued effort to enhance this process for our members. The two in-house hearing officers are budgeted as part of personnel and this line item represents the contracted amounts for the external hearing officers for FY 2025.

LEGAL CONTRACTS⁵

The Workgroup worked with KPPA legal staff and closely examined estimated costs for on-going and pending cases, some of which will go to trial this fiscal year, resulting in a significant increase to the budgeted amount.

COMPUTER EQUIPMENT / SOFTWARE⁶

The overall information technology budget remains at approximately \$4.2M, comprised of the following areas:

Costs for IT contractors that KPPA utilizes through Commonwealth master agreements to supplement our own internal staff (\$1.1M).

Approximately \$1M in multiple software products for licenses, support, and maintenance, including Microsoft, FileNet components, VMware, BoardBooks, GreatPlains, Zoom, Adobe; etc.

Nearly \$900k in identified projects that meet strategic executive and Trustee initiatives or necessary replacements, including enhanced storage, fiber switch upgrades, on-site camera upgrades, badge system upgrades, etc.

Several other items such as external assessments (by Crowe), server replacements, desktop/laptop upgrades, and a cyber insurance policy now in place.

POSTAGE⁷

Postage rates increased again in January of 2024. For FY 2024, KPPA exceeded the postage budget line item partially due to this increase as well as a postcard mailing kicking off the paperless project. In theory, the paperless project should reduce overall postage costs, however, the Workgroup wants to budget conservatively until those savings are realized. In addition, KPPA does have board elections upcoming (which require significant mailing), and the Workgroup has accounted for that along with the increase in postage for FY 2024.

UNALLOCATED RESERVE⁸

The unallocated reserve amount represents the difference between the Commonwealth's already approved FY 2025 biennial budget amount of \$48,981,500 and the Workgroup's best estimate of expenditures by line item for FY 2025.

Rather than "artificially inflate" individual line items in the administrative budget to reach a total budget of \$48,981,500, the Workgroup has attempted to present the most accurate budget by line item and account for the difference as an unallocated reserve.

This practice of separately identifying an unallocated reserve amount was initiated in FY 2021. For that year the unallocated reserve amount was \$7.7M and was referred to as "Major Legislation Implementation". The FY 2022 unallocated reserve amount was \$3.7M, the FY 2023 amount was \$4.1M, the FY 2024 amount was \$4.9M, and the FY 2025 amount is \$216k.

This amount is not expected to be utilized during the fiscal year unless business needs change. For example: a new unanticipated service is contracted, a new court case emerges, KPPA has a costly cyber incident, or the legislature passes legislation that results in unanticipated costs.

Please see note ² above regarding the unallocated reserve amount of \$1.7M, being set aside specifically for nine (9) new positions, which were approved by the KPPA Board as part of the biennium budget, that are being pursued through the OSBD, as the legislature did not approve them in the final biennium budget.

ADMINISTRATIVE BUDGET OVERSPEND

During the FY, if an administrative expenses sub-category exceeds or is likely to exceed the approved budget amount (e.g., personnel, or legal contracts, etc.), KPPA staff will obtain KPPA Board approval to reclassify the appropriate amount from the unallocated reserve to the appropriate line item(s) within the relevant sub-category. If, however, an individual line item within a sub-category exceeds or is likely to exceed the approved budget amount (e.g., employer paid sick leave, or office supplies, etc.), KPPA staff will notify the KPPA Board of the line item that is over budget at the next regularly scheduled quarterly meeting.

FY 2025 KPPA INVESTMENT BUDGET

KPPA spending related to investments is paid directly from the trust funds (both the pension and the insurance trust funds, based on assets under management). These costs are not included in the administrative budget, and they are not submitted to OSBD or LRC as part of biennial budget process.

However, KRS 61.505 (11) (3) requires that KPPA report investment expenses to the Public Pension Oversight Board (PPOB). In addition, KPPA staff and prior Workgroups identified the need for trustees to be provided more detail on investment expenses. Therefore, an investment budget was established (in FY 2023) and budget to actual reporting for investment expenses have been provided to the Investment Committee of both CERS and KRS quarterly.

The below proposed investment budget does not include manager fees. Manager fees rise and fall with the markets and estimating total fees is challenging and provides little value in relation to a budget and oversight of spending. Therefore, as in the prior year, the Workgroup recommends only reporting the actual manager fees for the fiscal year quarterly to the CERS and KRS boards as well as to the PPOB when requested, without being accompanied by an estimated budget.

Non-manager fees are more easily budgeted and generally represent goods and services that support the management of the funds. For example, custodial bank fees, benchmarking services and legal defense. The below proposed investment budget has non-manager fees broken into three subcategories: consulting services, legal & auditing services, and contractual services.

Consulting Services:

The FY 2025 proposed budget is increasing for an inflationary component as well as the pursuit of new private market consultants to provide more service and analysis to the boards.

Legal Services:

When establishing the investment budget in the prior year, extensive discussions were held regarding the pros and cons of including legal fees for investment related litigation within the administrative budget or within the investment budget. The final recommendation was to budget legal costs related to investment litigation within the investment budget to effectively report all investment related costs and to follow industry best practices. The Workgroup has adopted this same methodology for investment related costs.

The FY 2025 proposed budget is \$1.875M higher than the FY 2024 budget. This increase in the budget is due to increased activity in ongoing investment litigation, as well as fiduciary defense costs as our insurance policy has been exhausted.

Contractual services:

The FY 2025 proposed budget is \$153k higher than the FY 2024 budget and represents modest inflationary increases and new services.

Investment Budget				
	FY 2024 Budget	Proposed FY 2025 Budget	Difference	% Change
CONSULTING SERVICES				
Wilshire Associates	\$ 1,200,000	\$ 1,250,000	\$ 50,000	4.17%
Albourne	275,000	275,000	\$ -	0.00%
MercerInsight	165,000	165,000	\$ -	0.00%
New Private Markets consultant		250,000	\$ 250,000	
SUBTOTAL	1,640,000	1,940,000	300,000	18.29%
LEGAL & AUDITING SERVICES				
Faegre Drinker	100,000	375,000	275,000	275.00%
Intelligent Management Solutions (IMS)	350,000	700,000	350,000	100.00%
McClain/Goldberg	100,000	25,000	(75,000)	-75.00%
Reinhart	2,500,000	3,000,000	500,000	20.00%
Stoll-Keenon-Ogden	750,000	875,000	125,000	16.67%
Haystack	100,000	200,000	100,000	100.00%
Umberg Zipser	850,000	750,000	(100,000)	-11.76%
Trustees & Officers counsel	150,000	850,000	700,000	466.67%
Miscellaneous	50,000	50,000	-	0.00%
SUBTOTAL	4,950,000	6,825,000	1,875,000	37.88%
CONTRACTURAL SERVICES				
Bloomberg	150,000	160,000	10,000	6.67%
BNYM Custodial Fees	2,600,000	2,700,000	100,000	3.85%
eVestment (Solovis RMS)	35,000	35,000	-	0.00%
Solovis (Reporting & Analytics)	275,000	300,000	25,000	9.09%
FactSet	150,000	150,000	-	0.00%
Russell Index Subscription	1,500	30,000	28,500	1900.00%
S&P Global	75,000	47,500	(27,500)	-36.67%
TradeWeb	7,500	-	(7,500)	-100.00%
State Street/Elkins McSherry	10,000	10,000	-	0.00%
ISS	60,000	60,000	-	0.00%
MSCI	1,000	1,000	-	0.00%
KPMG Tax Guarantor Services	7,500	10,000	2,500	33.33%
Jayant Ghevaria and CO	55,000	55,000	-	0.00%
India Renewal Fee (SEBI)	3,000	3,000	-	0.00%
Pension Real Estate Association		350	350	
Oxford Economics		20,000	20,000	
Morningstar		2,500	2,500	
Miscellaneous & New Services & Subscriptions	250,000	250,000	-	0.00%
SUBTOTAL	3,680,500	3,834,350	153,850	4.18%
TOTAL	\$ 10,270,500	\$ 12,599,350	\$ 2,328,850	22.68%

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KPPA
Kentucky Public Pensions Authority

FY 2025 Budget Workgroup
KPPA Board Presentation 6-27-2024





Workgroup

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- Mr. William O'Mara, KPPA Board Member and County Employees Retirement System (CERS) Trustee,
- Mr. C. Prewitt Lane, KPPA Board Member and Kentucky Retirement System (KRS) Trustee,
- Mr. David Eager, KPPA Executive Director,
- Mr. Ed Owens III, CERS CEO,
- Mr. John Chilton, KRS CEO,
- Ms. Rebecca Adkins, KPPA Deputy Executive Director,
- Mr. Mike Lamb, KPPA Chief Financial Officer

In addition, multiple KPPA employees contributed to and participated in the multiple Workgroup meetings, and we express our sincere thanks for all their efforts.



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FY 2025 Separation Costs

Type of Expenses	Comments	FY 2021	FY 2022	FY 2023	FY 2024
Staff Salaries and Benefits	Staff Implementation Hours	\$ 182,426	\$ -	\$ -	\$ -
	CERS CEO	-	135,423	172,723	207,927
	KRS CEO	-	41,384	79,168	86,927
Legal Fees	CERS General Counsel	-	95,428	108,718	59,901
	KRS General Counsel	-	52,661	42,099	3,445
CERS, KRS, and KPPA Board Meeting Expenses	Initial meetings for set up of new boards	18,196	-	-	-
Logo Design, Signage; Badges; etc.	KPPA, KRS, and CERS Logos, office signs, employee badges.	11,007	1,434	-	-
Additional Board Member & CEE Costs	Training, equipment, software, etc.	-	6,210	-	-
Total		\$ 211,629	\$ 332,540	\$ 402,708	\$ 358,201



FY 2025 Hybrid Percentage

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Same methodology from prior year to determine the FY 2025 hybrid percentage.

CERS and KRS Boards of Trustees have approved their own internal allocation for the plans under their purview.

FY 2025 HYBRID %		
CERS Nonhazardous	59.00%	64.16%
CERS Hazardous	5.16%	
KERS Nonhazardous	31.514%	35.84%
KERS Hazardous	3.617%	
SPRS	0.709%	
Total	100.00%	100.00%



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FY 2025 Administrative Budget

ADMINISTRATIVE EXPENSES	FY 2024 Admin Budget	FY 2025 PROPOSED ADMIN BUDGET	Budget Difference Year to Year	% Change Budget vs Budget
PERSONNEL				
Subtotal	\$ 34,520,287	\$ 36,798,000	\$ 2,277,714	6.60%
LEGAL CONTRACTS				
Subtotal	\$ 1,210,000	\$ 2,030,000	\$ 820,000	67.77%
AUDITING				
Subtotal	\$ 300,000	\$ 300,000	\$ -	0.00%
ACTUARIAL SERVICES				
Subtotal	\$ 500,000	\$ 525,000	\$ 25,000	5.00%
MEDICAL EXAMINERS / HEARING OFFICERS				
Subtotal	\$ 1,800,000	\$ 1,800,000	\$ -	0.00%
OTHER PERSONNEL				
Subtotal	\$ 500,000	\$ 510,000	\$ 10,000	2.00%
PERSONNEL TOTAL	\$ 38,830,287	\$ 41,963,000	\$ 3,132,714	8.07%
OPERATIONAL				
RENTALS - BUILDING & EQUIPMENT				
Subtotal	\$ 1,166,500	\$ 1,175,000	\$ 8,500	0.73%
INFORMATION TECHNOLOGY				
Subtotal	\$ 4,190,000	\$ 4,230,000	\$ 40,000	0.95%
OTHER OPERATIONAL				
Subtotal	\$ 1,371,200	\$ 1,397,500	\$ 26,300	1.92%
OPERATIONAL TOTAL	\$ 6,727,701	\$ 6,802,500	\$ 74,799	1.11%
Unallocated Reserve	4,882,812	216,000	(4,666,812)	-95.58%
ADMINISTRATIVE BUDGE AMOUNT	\$ 50,440,800	\$ 48,981,500	\$ (1,459,300)	-2.89%



FY 2025 Administrative Budget

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PERSONNEL SUBTOTAL: Includes \$2.6M in increased salaries and related costs, \$1.7M for 9 additional positions being pursued through OSBD, offset by a decrease in employer paid retirement of (\$2.1M) as contribution rates are decreasing from 66.17% to 48.75%.

LEGAL CONTRACTS SUBTOTAL: The Workgroup worked with KPPA legal staff and closely examined estimated costs for on-going and pending cases.

INFORMATION TECHNOLOGY: Remains consistent with prior year budget amounts.

UNALLOCATED RESERVE: Represents the difference between the General Assembly's approved FY 2025 biennial budget amount of \$48,981,500 and the Workgroup's best estimate of expenditures for FY 2025.

ADMINISTRATIVE BUDGET OVERSPEND: During the FY, if an administrative expenses sub-category exceeds or is likely to exceed the approved budget amount (e.g., personnel, or legal contracts, etc.), KPPA staff will obtain KPPA Board approval to reclassify the appropriate amount from the RESERVE to the appropriate line item(s) within the relevant sub-category.



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FY 2025 Investment Budget

Investment Budget				
	FY 2024 Budget	Proposed FY 2025 Budget	Difference	% Change
CONSULTING SERVICES				
SUBTOTAL	1,640,000	1,940,000	300,000	18.29%
LEGAL & AUDITING SERVICES				
SUBTOTAL	4,950,000	6,825,000	1,875,000	37.88%
CONTRACTUAL SERVICES				
SUBTOTAL	3,680,500	3,834,350	153,850	4.18%
TOTAL	\$10,270,500	\$12,599,350	\$2,328,850	22.68%

Consulting Services:

Increasing for inflationary components and pursuit of private market consultants.

Legal Services:

Increased activity in ongoing investment litigation, and the exhaustion of the KPPA fiduciary insurance policy.

Contractual services:

Increase represents modest inflationary adjustments and new services.