

**Kentucky Public Pensions Authority
Ad Hoc Budget Committee – Special Meeting
September 22, 2025, at 1:00 PM EST (12:00 PM CT)
Live Video Conference/Facebook Live**

AGENDA

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|----|--|----------------|
| 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* - August 29, 2025 | William O’Mara |
| 6. | FY26-28 Biennium Budget* | Mike Lamb |
| | a. Additional Budget Request Discussion | |
| 7. | Other Budget topics | 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
AUGUST 29, 2025, 10:00 A.M., E.T.
VIA LIVE VIDEO
TELECONFERENCE**

At the August 29, 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. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Rebecca Adkins, Michael Lamb, 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. Ms. Rankin noted no ***Public Comments*** were received.
5. Mr. O'Mara introduced the agenda item ***Approval of Meeting Minutes – June 20, 2024*** (Video 00:007:07 to 00:07:36). 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 ***FY26-28 Biennium Budget Discussion*** (Video 00:07:36 to 00:50:05). Mr. Lamb presented the FY26–28 Biennium Budget draft, using a working Excel document to guide discussion. He reminded the group that KPPA's budget must be approved by the Board before its October 1 submission and suggested a follow-up meeting to address any questions or clarifications.

The starting point is the Board-approved FY26 administrative budget of \$49.97 million. Preliminary estimates for FY27 show a 4.26% increase to \$52.1 million, largely driven by baseline salary adjustments provided by the State Budget Director's office. The budget includes full headcount projections (284 positions), with overtime and Block 50 payouts increased in anticipation of a potential capital project.

Legal expenses were reviewed, with internal hearing officers expected to reduce outside contract costs. Actuarial services and MRRO contracts were adjusted based on historical spending, and IT risk assessment funding may carry into FY27. The IT budget, currently set at \$3.9 million for FY26, may rise depending on future needs. Most other operating costs remain steady, with a modest inflationary increase planned for FY28.

KPPA is preparing for a major capital project to potentially replace its 20-year-old pension administration system, known as the Start system. This system is central to KPPA operations, managing employer and member data, retirement calculations, accounting, insurance, and more. Because the system relies on an outdated programming language that Microsoft is no longer advancing, moving forward with this project has become essential. A technical assessment in FY26 will evaluate whether to upgrade the language or fully replace the system, factoring in automation and long-term efficiencies.

A capital plan has been submitted to the Capital Planning Advisory Board, proposing a \$75 million investment over three biennia: \$15 million in the first, \$50 million in the second, and \$10 million in the third. Funding would come from restricted sources. The project will involve both internal staff and external vendors, and overtime has been budgeted to support increased workload, especially for IT and business users assigned to the project.

Mr. O'Mara confirmed the capital project spans six years across three biennia, which Mr. Lamb affirmed aligns with the timeline for a full system replacement. The current technical assessment is a preparatory step to determine the best path forward. Ms. Adkins

clarified that the assessment is separate from the capital project and will guide future decisions. Mr. O'Mara also emphasized gathering employer input on reporting challenges and desired improvements, which Ms. Adkins agreed is a priority as stakeholder engagement will be part of the process.

Mr. Barrow raised the issue of phasing out external hearing officers, noting it as a key policy shift. Mr. Lamb said they may be eliminated by the end of 2026, with none expected in 2027. Since the biennium budget is a lump sum (\$52 million), any related expenses could still be absorbed without issue. Internal hearing officers, who are KPPA employees, remain unaffected. Mr. O'Mara suggested keeping the line item until a final decision is made, and Mr. Lamb agreed to revisit it at the next meeting after consulting legal counsel.

The group then discussed auditing and actuarial services. A new auditing firm is contracted for \$200,000 over three years, with no extra costs expected. For actuarial services, they debated between a conservative \$550,000 budget or adjusting based on past averages. Ms. Adkins explained that the 2023 spike was due to a full experience study. Mr. Lamb confirmed the second year aligns with the next study, and the group agreed to keep the conservative amount.

Mr. Lamb noted that the medical review process has become more streamlined through the use of MMRO. He noted the current budget estimate of \$1.5 million. Mr. O'Mara suggested increasing the estimate to \$1.6 million, which Ms. Adkins agreed would be more comfortable given recent trends—fewer cases but slightly higher prices. She emphasized that while the budget is split for internal management, the biennial request can be adjusted as needed.

Mr. Lamb explained that the miscellaneous contract amount was increased due to the IT tech assessment, strategic planning, benchmarking studies, and digital storage cleanup. The 2026 budget includes \$1 million with a \$550,000 allocation. If the IT assessment is delayed into 2027, the \$1.5 million estimate may be justified. Ms. Adkins confirmed the

RFP process is behind schedule, making a 2027 carryover likely. Mr. Lamb noted that if funds aren't spent in 2026, they'll shift to 2027, and he plans to clarify specific projects for future budgets.

Regarding the Louisville office lease, \$100,000 was budgeted for 2027 and 2028, which was deemed appropriate by Mr. Barrow and Ms. Adkins, allowing for minor repairs. Mr. Lamb also mentioned other leases, IT costs, and travel, noting a correction for 2026 travel and inflation adjustments for 2028.

On the overall budget, Mr. Lamb reported receiving a flat biennium figure of \$49,969,700—unchanged from the previous cycle. Mr. O'Mara pointed out that personnel costs had increased, implying cuts elsewhere. Mr. Lamb recalled that although they requested \$51.6 million previously, the legislature approved less, and similar reductions could happen again. Mr. Barrow and Ms. Adkins added that supplemental salary increases and open position funding adjustments weren't reflected in the baseline, and tight budgets often lead to partial funding. Ms. Adkins emphasized that although the budget is from restricted funds, it still faces general fund-style constraints.

Mr. Lamb summarized his key action items from the budget discussion. He plans to clarify the future of hearing officers and determine the status of CERS and KERS general counsel. He will gather more detail on miscellaneous special projects to justify the proposed budget figures and revisit the \$4 million IT software budget with the IT team. Additionally, he intends to follow up with the budget office to understand why the biennium total remains flat at \$49 million—identical to 2026—despite anticipated increases in IT assessments, staffing, and salaries.

7. Mr. O'Mara introduced the agenda item ***Other Budget Topics*** (Video 00:54:55 to 00:56:25). Mr. Lamb identified the construction of the hybrid percentage as a key budget topic to be reviewed with the committee over the coming months. He explained that the hybrid percentage for 2027 will be based on the actuals from June 30, 2025. If time allows, he plans to provide high-level estimates before the next meeting. Otherwise, a

deeper dive into the methodology and structure of the hybrid percentage will take place after the upcoming KPPA meeting, where the committee can explore the details and implications more thoroughly. No additional budget topics were raised for preparation at this time.

8. Mr. O'Mara introduced the agenda item ***Schedule Next Meeting Date and Time*** (*Video 00:50:05 to 00:54:55*). The Committee agreed to schedule another meeting for Monday, September 15, 2025, at 1:00 p.m.
9. 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 August 29, 2025, were approved by the KPPA Ad Hoc Budget Committee on September 15, 2025.

Committee Chair

I have reviewed the Minutes of the KPPA Ad Hoc Budget Committee meeting on August 29, 2025, for form, content, and legality.

Office of Legal Services