

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)

	FY 2025-26		FY 2026-27	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW
CASH FUNDS		SEE BELOW		
FEDERAL FUNDS				
OTHER FUNDS	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW
TOTAL FUNDS	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB661 amends several sections to:

- provide duties for the Nebraska Investment Council regarding investment of retirement system funds
- provide duties for the state investment officer regarding investment of retirement system funds
- require a report relating to certain investments of retirement system funds
- provide a duty for the State Treasurer

On or before October 1, 2025, the state treasurer will create & publish a list of restricted Chinese entities as defined in §72-1239.01 & update the list at least every six months.

For any investments related to the retirement systems administered by the Public Employees Retirement Board (PERB), the state investment officer & appointed members of the investment council will not engage in investment activities with a Chinese entity.

Upon publication of the list of Chinese entities by the State Treasurer, the state investment officer & the appointed members of the investment council will identify any holdings of the state's retirement systems related to any Chinese entity & will divest from all holdings & other investment activity in that Chinese entity as soon as practicable.

The state investment officer will electronically provide semiannual written reports to the Nebraska Retirement Systems Committee of the Legislature & the Clerk of the Legislature regarding any investments related to the retirement systems administered by the PERB, related to any Chinese entity as defined in §72-1239.01. The report will include the name of each restricted company or restricted entity, the asset allocation class & sector to which it belongs pursuant to the asset allocation policy & the amount of retirement systems funds invested.

The first report will be due on or before January 15, 2026, & will contain information for the six-month period ending December 31, 2025.

The second report will be due on or before July 15, 2026, & will contain information for the six-month period ending June 30, 2026.

In each calendar year thereafter, reports will be due:

- On or before January 15, will contain information for the most recent six-month period ending December 31
- On or before July 15, will contain information for the most recent six-month period ending June 30

Since an emergency exists, this bill takes effect when passed & approved according to law.

FISCAL IMPACT:

LB661 would require the Nebraska Investment Council (NIC) to invest in customized international & global equity managers with higher manager fees. This expense is estimated at \$18,200,000 per year.

The NIC would be forced to hire less successful managers resulting in lower performance. The average difference in performance between top quartile & median global equity managers is 2.7%, resulting in an estimated reduction in revenue of \$178,700,000 per year.

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Divestment would require the sale of all private equity & private real estate funds with China holdings. These funds would have to be sold at a discount ranging from 10% to 38% depending on the type of fund. This one-time loss is estimated to be \$68,000,000. Divestment would also affect the revenue coming from securities lending. It would have an estimated reduction of revenue by \$74,000 per year. Divestment would force the transition of the passively managed international account to an ex-China mandate. This would require the sale of all assets & the re-purchase of the new portfolio. The transition has an estimated expense of \$3,600,000.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE			
LB: 661	AM:	AGENCY/POLT. SUB: Nebraska Public Employees Retirement Systems (NPERS)	
REVIEWED BY: Ryan Walton		DATE: 1/31/2025	PHONE: (402) 471-4174
COMMENTS: The NPERS' assessment of no fiscal impact from LB 661, appears reasonable.			

Please complete ALL (5) blanks in the first three lines.

2025

LB⁽¹⁾ 661

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska Investment Council

Prepared by: ⁽³⁾ Ellen Hung, SIO Date Prepared: ⁽⁴⁾ 2-25-2025 Phone: ⁽⁵⁾ 402-471-2001

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2025-26</u>		<u>FY 2026-27</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>\$4,987,287</u>	<u>-\$133,728,391</u>	<u>\$4,164,623</u>	<u>-\$117,477,327</u>
CASH FUNDS	<u></u>	<u>-\$628,947</u>	<u></u>	<u></u>
FEDERAL FUNDS	<u></u>	<u></u>	<u></u>	<u></u>
OTHER FUNDS	<u>\$1,341,761</u>	<u>-\$35,008,796</u>	<u>\$1,113,611</u>	<u>-\$27,834,795</u>
TOTAL FUNDS	<u><u>\$6,329,048</u></u>	<u><u>-\$169,366,134</u></u>	<u><u>\$5,278,235</u></u>	<u><u>-\$145,312,122</u></u>

Explanation of Estimate:

LB661 requires the full divestment of investments in China, both current and future. The total effect on the NIC portfolios (retirement, and endowments funds) are estimated to be a reduction of \$577.7 million in revenue and an increase of \$21.8 million in expenses. This estimated impact is based on published data and the experience of consultants and managers. It does not include the increased portfolio risk and further reduction in revenue that can't be readily quantified.

Revenue Loss - Annual

The NIC has consistently been successful at hiring top quartile performing managers to actively manage global equity portfolios. These top quartile managers would not accept a mandate with country restrictions and the NIC would be forced to hire less successful managers resulting in median performance. The average difference in performance between top quartile and median global equity managers is 2.7%, resulting in a reduced revenue of \$178.7 million per year.

The restrictions on specific countries would make it even harder to get into highly performing private market funds as they are often oversubscribed (more investor interest than total fund size). The difference in performance between top quartile and median managers can be significant. For the period from 2020-2023, top quartile private equity funds generated an average annualized return of 10.62% versus median funds at -0.77%. This difference of -11.39% would result in a reduced revenue of \$330.1 million per year.

Divestment would also affect the revenue coming from securities lending. While the amount is small compared to the other areas, it would still have an impact of reducing revenue by \$74 thousand per year.

Revenue Loss - One-Time From Sale of Assets

Divestment would require the sale of all private equity and private real estate funds with China holdings. These funds would have to be sold at a discount ranging from 10% to 38% depending on the type of fund. This one-time loss is estimated to be \$68 million.

The OIP will incur a loss of \$865 thousand from the sale of an Alibaba bond at the current market price. This would be a forced loss as long-term assets in the OIP are usually held to maturity without incurring a loss.

Expense Increase - Annual

The restrictions would require the NIC to invest in customized international and global equity managers with higher manager fees. The estimated increase is \$18.2 million per year.

Expense Increase - One-Time Transition Cost

Divestment would force the transition of the passively managed international account to an ex-China mandate. This would require the sale of all assets and the re-purchase of the new portfolio. The transition cost is estimated to be \$3.6 million.

Allocation of Financial Impact

The estimated impact stated above includes portfolios in the defined benefit plans, cash balance plans, Omaha School Employees Retirement Systems (OSERS) and endowment funds. To determine the impact on the General Fund, we used the percentages attributable to each retirement plan and the contributions that would be needed in the event of a shortfall.

- 100% of the amount from the Cash Balance, Defined Benefits-Judges and Defined Benefits-Patrol Plans as any shortfall would have to be made up by the State.
- 9% of the amount attributed to the Defined Benefits-School and Omaha Service Annuity based on the current State contribution rate of 2%.

The effect attributable to the Endowment Funds are listed under "Other Funds".

The estimated impact on OSERS is \$36.9 million dollars and is not listed in the table above. This is for informational purposes as it is uncertain what the State's responsibility is if the underfunded status increases.

<u>BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE</u>				
<u>Personal Services:</u>				
<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2025-26</u>	<u>2026-27</u>
	<u>25-26</u>	<u>26-27</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				

LB⁽¹⁾ 661

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Nebraska Public Employees Retirement Systems (NPERS)-085

Prepared by: ⁽³⁾ Teresa Zulauf

Date Prepared: ⁽⁴⁾ 1/30/25

Phone: ⁽⁵⁾ 402-471-7745

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2025-26		FY 2026-27	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS	0	0	0	0
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	0	0	0	0

Explanation of Estimate:
LB 661 –Provides duties for the Nebraska Investment Council regarding investments of retirement system funds.

No fiscal impact to NPERS Agency 085 operations expenditures.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:				
POSITION TITLE	NUMBER OF POSITIONS		2025-26	2026-27
	25-26	26-27	EXPENDITURES	EXPENDITURES
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				