Table of Contents

2016-17 Governor's Budget, Minnesota State Retirement System

Agency Profile – Minnesota State Retirement System.................................................................1
Expenditures Overview................................................................................................................5
Financing by Fund..........................................................................................................................6
AT A GLANCE

Information is current as of June 30, 2014, unless otherwise stated

- Established in 1929
- **Defined benefit retirement funds managed** – 5
  - Total defined benefit members – 118,352
  - Net defined benefit fund position (net assets held in trust) - $13.2 billion
- **Defined contribution retirement funds managed** – 4
  - Total defined contribution participants as of June 30, 2014 with unique social security numbers – 145,897
  - Net defined contribution fund position (net assets held in trust) - $6.8 billion
  - Total participating employers - 766
  - FY15 administrative and recordkeeping expenses budget - $24.5 million
- Number of employees – 120

Source: MSRS 2014 Comprehensive Annual Financial Report

PURPOSE

Minnesota State Retirement System’s (MSRS) mission is to administer financially secure retirement plans for its members, assure timely benefit payments, be proactive in public pension policies, and provide exemplary customer service through a one-stop shopping source.

MSRS supports the following statewide outcomes:

- A thriving economy that encourages business growth and employment opportunities, by allowing retirees to remain self-supportive and purchase goods and services in the local community.
- Strong and stable families and communities, with over 90% of MSRS retirees living in Minnesota.
- Efficient and accountable government services.

An 11-member board of directors governs MSRS’ administration. The MSRS Board has statutory authority to appoint an Executive Director to manage the system.

BUDGET

MSRS administers five defined benefits funds internally: the **State Employees**, **State Patrol**, **Correctional Employees**, **Judges**, and **Legislators Retirement Plans**. All of these plans, except the Legislators Retirement Plan, are funded primarily with investment earnings comprising 74 percent of revenues over the ten-year period ending June 30, 2013. Plan member and employer contributions

Pie chart footnotes:
1. Spending includes retirement benefit payments, distributions to participants, and administrative expenses.
2. Effective July 1, 2013, the Legislators and Elective State Officers Retirement Funds merged for administrative cost saving purposes.

Source: MSRS 2014 Comprehensive Annual Financial Report

Bar chart footnotes:
1. Other Funds includes MSRS’ pension trust funds.
2. Although indecipherable on the bar chart, MSRS only utilized state General Fund appropriations to finance retirement benefits, annual actuarial valuation costs, and other administrative expenses for the Legislators and Elective State Officers Retirement Plans.
3. MSRS does not directly finance activities with federal funds.

Source: MSRS 2011 and 2013 Comprehensive Annual Financial Reports
each comprised about 12 percent of revenues in the same period. MSRS contribution rates continue to remain relatively stable, given an annualized investment rate of return of 8.4% for the ten-year period ending June 30, 2014. These four plans require no direct state appropriation for funding purposes. MSRS’ administrative expenses for these funds are less than 1/10 of 1% of plan net assets.

For the Legislators Retirement Plan, which includes the Elective State Officers Retirement Plan as of July 1, 2013, MSRS receives state General Fund appropriations to partially finance monthly regular retirement and survivor benefit payments, the cost of annual actuarial valuations and each plan’s proportionate share of MSRS’ administrative expenses. Since these plans have been closed to new members for 18 years, contributions and/or net assets are insufficient to pay future benefits to retired members and survivors. The plan continues to be funded on a pay-as-you-go basis.

As of June 30, 2014, $8.3 million in net assets exists in the Legislators Retirement Fund to finance retirement benefits to members who retired prior to July 1, 2003, and their survivors. These assets are expected to be depleted during fiscal year 2016. Upon depletion of those assets, all benefits for the Legislators Retirement Fund will be funded on a pay-as-you-go basis with annual General Fund appropriations; thus creating a spike in General Fund appropriation amounts for the 2016-2017 biennium, in comparison to previous bienniums. The 2016-2017 General Fund appropriation includes funding to pay benefits to the pre-July 1, 2003 retirees and survivors, in addition to financing the benefits for all other retirees and survivors of the Legislators and Elective State Officers Retirement Plans.

MSRS also administers four defined contribution funds: the Unclassified Employees Retirement Plan, the Minnesota Deferred Compensation Plan, the Health Care Savings Plan, and the Supplemental Retirement Plan for Hennepin County. For these plans, participants’ tax-deferred contributions are invested daily and held in trust until retirement or termination of employment. Participant administrative fees finance recordkeeping, custodial, and other MSRS administrative expenses. These plans also require no state appropriation for funding purposes.

**STRATEGIES**

MSRS utilizes the following strategies to accomplish its stated mission:

- Develop, implement, and maintain retirement programs that are responsive to its members’ needs.
- Seek approval of legislative initiatives designed to ensure the financial stability of the retirement plans.
- Deliver pension benefits and services in a customer-oriented and cost-effective manner.
- Educate members to make informed decisions leading to a financially secure retirement future through counseling, workshops, newsletters, and web-based services and tools.
- Promote a respectful, ethical, high performance work environment that supports staff development, technological enhancements, and business process improvements.

MSRS operates from its main office in St. Paul and branch offices located in St. Cloud, Mankato, Detroit Lakes, and Duluth. MSRS is organized around two functional areas: retirement services and administrative support processes. Retirement Services staff provide education, benefit determinations, and retirement counseling to members of all MSRS retirement plans by phone, through onsite visits, and through the MSRS interactive web site. Administrative divisions support financial, information technology and systems, records management and contract administration services.

For MSRS’ defined benefit plans, member and employer contributions are collected through payroll deduction and transferred to the Minnesota State Board of Investment where they are pooled with the assets of other statewide retirement associations and invested in various securities. MSRS employees disburse monthly benefit payments to retired members, survivors, and disabled employees; and process lump-sum withdrawals and rollovers to members who have terminated employment.

For MSRS’ defined contribution plans, participants’ tax deferred contributions flow from the employer, via payroll deduction, through the recordkeeper to the custodian for daily investment. Individual participants select their own investments from the various options offered. At MSRS’ direction, the recordkeeper will make distributions to participants and vendors, and reimburse MSRS for each plan’s proportionate share of administrative expenses. Financial transactions of these funds are not captured in the state’s accounting system. Thus, the fiscal pages of this budget document omit the financial activities for these plans.
RESULTS

Three measures of a defined benefit plan's financial health are:

- **Funded Ratio** – This ratio is the percent of a retirement fund's net assets, calculated for actuarial purposes, that is available to pay the present value of benefits that employees already earned. The higher the ratio, the better positioned the retirement plan is to pay future benefits when they become due.

- **Contribution Sufficiency/Deficiency Rate** – This rate is the difference between the actuary's computation of required employer and employee contributions rates and the statutory contribution rates, expressed as a percent of payroll. A sufficiency indicates that the plan is on target to reach a 100% funded ratio before its full funding date; conversely, a deficiency means the retirement system is not collecting enough contributions to its full funding target date.

- **Unfunded Actuarial Accrued Liability** – This is the difference between the actuary's valuation of assets and the present value of member's future benefits. The more plan assets that a retirement fund has at a particular point in time, the lesser the unfunded actuarial accrued liability amount will be.

The table below presents performance measurement data for MSRS' defined benefit funds as of June 30, 2009, and June 30, 2014, based on computations using the market value of assets instead of the actuarial value of assets.

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Performance Measure by MSRS Fund</th>
<th>Previous</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MSRS State Employees Retirement Fund</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>Contribution Sufficiency/(Deficiency)</td>
<td>(15.1)%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Quantity</td>
<td>Unfunded Actuarial Accrued Liability</td>
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<td>$946.5 million</td>
</tr>
<tr>
<td>Quality</td>
<td>Funded Ratio</td>
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<td>92.4%</td>
</tr>
<tr>
<td><strong>State Patrol Retirement Fund</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>Contribution Sufficiency/(Deficiency)</td>
<td>(24.2)%</td>
<td>(1.5)%</td>
</tr>
<tr>
<td>Quantity</td>
<td>Unfunded Actuarial Accrued Liability</td>
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<td>$133.1 million</td>
</tr>
<tr>
<td>Quality</td>
<td>Funded Ratio</td>
<td>62.1%</td>
<td>83.4%</td>
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<tr>
<td><strong>Correctional Employees Retirement Fund</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Quality</td>
<td>Contribution Sufficiency/(Deficiency)</td>
<td>(9.8)%</td>
<td>(1.9)%</td>
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<tr>
<td>Quantity</td>
<td>Unfunded Actuarial Accrued Liability</td>
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<td>$245 million</td>
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<tr>
<td>Quality</td>
<td>Funded Ratio</td>
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<td><strong>Judges Retirement Fund</strong></td>
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<td></td>
</tr>
<tr>
<td>Quality</td>
<td>Contribution Sufficiency/(Deficiency)</td>
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<td>(7.3)%</td>
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<tr>
<td>Quantity</td>
<td>Unfunded Actuarial Accrued Liability</td>
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<td>$122.7 million</td>
</tr>
<tr>
<td>Quality</td>
<td>Funded Ratio</td>
<td>47.4%</td>
<td>58.9%</td>
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<td><strong>Legislators Retirement Fund (funded on a pay-as-you-go basis)</strong></td>
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<tr>
<td>Quality</td>
<td>Contribution Sufficiency/(Deficiency)</td>
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<td>(2,278.6)%</td>
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<tr>
<td>Quantity</td>
<td>Unfunded Actuarial Accrued Liability</td>
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<td>$242.6 million</td>
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<tr>
<td>Quality</td>
<td>Funded Ratio</td>
<td>31.7%</td>
<td>3.3%</td>
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</tbody>
</table>

Source: Actuarial Valuation Report as of July 1, 2009 ("Previous" column) and July, 1, 2014 ("Current" column).

Specific Legal Citations:
- State Employees Retirement Fund – M.S. Sections 352.01-352.87 (https://www.revisor.mn.gov/statutes/?id=352)
- State Patrol Retirement Fund – M.S. Chapter 352B (https://www.revisor.mn.gov/statutes/?id=352B)
- Correctional Employees Retirement Fund – M.S. Sections 352.90-352.955 (https://www.revisor.mn.gov/statutes/?id=352)
Judges Retirement Fund – M.S. Chapter 490 (https://www.revisor.mn.gov/statutes/?id=490)
Legislators Retirement Fund – M.S. Chapter 3A (https://www.revisor.mn.gov/statutes/?id=3A)
Elective State Officers Retirement Plan – M.S. 352C (https://www.revisor.mn.gov/statutes/?id=352C)
Unclassified Employees Retirement Fund – M.S. Chapter 352D (https://www.revisor.mn.gov/statutes/?id=352D)
Health Care Savings Plan – M.S. Chapter 352.98 (https://www.revisor.mn.gov/statutes/?id=352.98)
Minnesota Deferred Compensation Fund – M.S. Section 352.965 (https://www.revisor.mn.gov/statutes/?id=352.965)
Hennepin County Supplemental Retirement Plan – M.S. Section 383B.46 (https://www.revisor.mn.gov/statutes/?id=383B.46)
### Expenditures By Fund

<table>
<thead>
<tr>
<th>Fund</th>
<th>Actual FY12</th>
<th>Actual FY13</th>
<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
<th>Forecast Base FY17</th>
<th>Governor's Recommendation FY16</th>
<th>Governor's Recommendation FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000 - General</td>
<td>3,626</td>
<td>3,898</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7210 - Correctional Employees Retirement</td>
<td>43,885</td>
<td>48,197</td>
<td>52,552</td>
<td>53,163</td>
<td>55,821</td>
<td>55,954</td>
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<td>7230 - State Patrol Retirement</td>
<td>50,330</td>
<td>52,345</td>
<td>53,978</td>
<td>55,256</td>
<td>57,970</td>
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<td>57,970</td>
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<tr>
<td>7240 - Judges Retirement</td>
<td>18,557</td>
<td>19,881</td>
<td>20,896</td>
<td>21,124</td>
<td>22,180</td>
<td>22,233</td>
<td>22,180</td>
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<tr>
<td>7250 - Legislators Retirement</td>
<td>4,729</td>
<td>4,565</td>
<td>8,528</td>
<td>9,192</td>
<td>8,737</td>
<td>8,954</td>
<td>8,737</td>
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<tr>
<td>7260 - State Employees Retirement</td>
<td>575,158</td>
<td>614,409</td>
<td>655,866</td>
<td>664,959</td>
<td>696,951</td>
<td>698,369</td>
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<td><strong>Total</strong></td>
<td><strong>696,285</strong></td>
<td><strong>743,294</strong></td>
<td><strong>791,840</strong></td>
<td><strong>803,695</strong></td>
<td><strong>841,659</strong></td>
<td><strong>843,615</strong></td>
<td><strong>841,659</strong></td>
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<td><strong>Governor's Change from Base</strong></td>
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<td></td>
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<td></td>
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</table>

### Expenditures by Program

<table>
<thead>
<tr>
<th>Program</th>
<th>Actual FY12</th>
<th>Actual FY13</th>
<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
<th>Forecast Base FY17</th>
<th>Governor's Recommendation FY16</th>
<th>Governor's Recommendation FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mn State Retirement System</td>
<td>669,373</td>
<td>714,951</td>
<td>762,416</td>
<td>773,379</td>
<td>810,742</td>
<td>812,428</td>
<td>810,742</td>
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<td>Elective Officers Plan</td>
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<td>476</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Judges Plan</td>
<td>18,557</td>
<td>19,881</td>
<td>20,896</td>
<td>21,124</td>
<td>22,180</td>
<td>22,233</td>
<td>22,180</td>
</tr>
<tr>
<td>Legislators Plan</td>
<td>7,896</td>
<td>7,986</td>
<td>8,528</td>
<td>9,192</td>
<td>8,737</td>
<td>8,954</td>
<td>8,737</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>696,285</strong></td>
<td><strong>743,294</strong></td>
<td><strong>791,840</strong></td>
<td><strong>803,695</strong></td>
<td><strong>841,659</strong></td>
<td><strong>843,615</strong></td>
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</table>

### Expenditures by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Actual FY12</th>
<th>Actual FY13</th>
<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
<th>Forecast Base FY17</th>
<th>Governor's Recommendation FY16</th>
<th>Governor's Recommendation FY17</th>
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<tbody>
<tr>
<td>Compensation</td>
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<td>7,896</td>
<td>8,812</td>
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<td>10,961</td>
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<tr>
<td>Operating Expenses</td>
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<td>10,113</td>
<td>12,871</td>
<td>12,201</td>
<td>12,042</td>
<td>11,914</td>
<td>12,042</td>
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<td>Other Financial Transactions</td>
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<td>725,285</td>
<td>770,158</td>
<td>780,483</td>
<td>818,656</td>
<td>820,740</td>
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<tr>
<td>Capital Outlay-Real Property</td>
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<td>50</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>696,285</strong></td>
<td><strong>743,294</strong></td>
<td><strong>791,840</strong></td>
<td><strong>803,695</strong></td>
<td><strong>841,659</strong></td>
<td><strong>843,615</strong></td>
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### Full-Time Equivalents

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<th></th>
<th>Actual FY12</th>
<th>Actual FY13</th>
<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
<th>Forecast Base FY17</th>
<th>Governor's Recommendation FY16</th>
<th>Governor's Recommendation FY17</th>
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<tbody>
<tr>
<td>Full-Time Equivalents</td>
<td>90.6</td>
<td>97.8</td>
<td>104.2</td>
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### 1000 - General

<table>
<thead>
<tr>
<th></th>
<th>Actual FY12</th>
<th>Actual FY14</th>
<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
<th>Forecast Base FY17</th>
<th>Governor's Recommendation FY16</th>
<th>Governor's Recommendation FY17</th>
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</thead>
<tbody>
<tr>
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<td>Net Transfers</td>
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<td>(3,964)</td>
<td></td>
<td>(5,642)</td>
<td>(8,953)</td>
<td>(5,642)</td>
<td>(8,953)</td>
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<tr>
<td><strong>Expenditures</strong></td>
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<td><strong>3,898</strong></td>
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### 6000 - Miscellaneous Agency

<table>
<thead>
<tr>
<th></th>
<th>Actual FY12</th>
<th>Actual FY14</th>
<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
<th>Forecast Base FY17</th>
<th>Governor's Recommendation FY16</th>
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<tr>
<td>Balance Forward In</td>
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<td>5</td>
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<td>(10)</td>
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### 7210 - Correctional Employees Retirement

<table>
<thead>
<tr>
<th></th>
<th>Actual FY12</th>
<th>Actual FY14</th>
<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
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<td>55,954</td>
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<tr>
<td><strong>Expenditures</strong></td>
<td><strong>43,885</strong></td>
<td><strong>48,197</strong></td>
<td><strong>52,552</strong></td>
<td><strong>53,163</strong></td>
<td><strong>55,821</strong></td>
<td><strong>55,954</strong></td>
<td><strong>55,954</strong></td>
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<td>Biennial Change in Expenditures</td>
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<td>Biennial % Change in Expenditures</td>
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<tr>
<td>Gov's Exp % Change from Base</td>
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### 7230 - State Patrol Retirement

<table>
<thead>
<tr>
<th></th>
<th>Actual FY12</th>
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<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
<th>Forecast Base FY17</th>
<th>Governor's Recommendation FY16</th>
<th>Governor's Recommendation FY17</th>
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<tbody>
<tr>
<td>Open Appropriation</td>
<td>50,330</td>
<td>52,345</td>
<td>52,978</td>
<td>54,256</td>
<td>56,969</td>
<td>57,104</td>
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<tr>
<td>Net Transfers</td>
<td>1,000</td>
<td>1,000</td>
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<td>1,000</td>
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<tr>
<td><strong>Expenditures</strong></td>
<td><strong>50,330</strong></td>
<td><strong>52,345</strong></td>
<td><strong>53,978</strong></td>
<td><strong>55,256</strong></td>
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## 7230 - State Patrol Retirement

**Gov's Exp % Change from Base**

<table>
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<tr>
<th></th>
<th>Actual FY12</th>
<th>Actual FY13</th>
<th>Estimate FY15</th>
<th>Forecast Base FY16</th>
<th>Forecast Base FY17</th>
<th>Governor's Recommendation FY16</th>
<th>Governor's Recommendation FY17</th>
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<tbody>
<tr>
<td>Open Appropriation</td>
<td>18,557</td>
<td>19,881</td>
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<td>20,896</td>
<td>21,124</td>
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## 7240 - Judges Retirement

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<th>Governor's Recommendation FY16</th>
<th>Governor's Recommendation FY17</th>
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<tbody>
<tr>
<td>Open Appropriation</td>
<td>4,729</td>
<td>4,565</td>
<td>4,989</td>
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## 7250 - Legislators Retirement

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<td>Open Appropriation</td>
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<td>4,989</td>
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## 7260 - State Employees Retirement

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<th>Governor's Recommendation FY17</th>
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<tbody>
<tr>
<td>Open Appropriation</td>
<td>575,668</td>
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