

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB264 by Brown, Fred (Relating to supplemental contributions to the optional retirement program by institutions of higher education.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB264, Committee Report 1st House, Substituted: an impact of \$0 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$0
2005	\$0
2006	\$0
2007	\$0
2008	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>ESTIMATED OTHER EDUCATIONAL & GENERAL INCOME</i> 770
2004	(\$12,526,909)
2005	(\$12,526,909)
2006	(\$12,526,909)
2007	(\$12,526,909)
2008	(\$12,526,909)

Fiscal Analysis

The bill would allow institutions of higher education to supplement the state appropriation to the Optional Retirement Program (ORP) with any source of funds available to the institution. Institutions would be able to supplement the amount the state appropriates for ORP up to 8.5 percent. Institutions could contribute at different rates based on an employee's hiring date.

Since it is difficult to project at what rate institutions would choose to contribute to ORP, this analysis assumes that all contributions would be made at the same rate. This analysis also assumes that institutions would supplement the ORP contribution with Other Educational and General Income.

Methodology

Currently, employer contributions to the Optional Retirement Program are calculated at three different rates, based on an employee's hiring date. Employees hired prior to September 1, 1993, receive an 8.5 percent ORP contribution; employees hired between September 1, 1993, and August 31, 1995, receive a 7.31 percent ORP contribution; and employees hired after this date receive a 6 percent ORP contribution. This analysis assumes that the contribution rate would be adjusted up to 8.5 percent for all employees.

Preliminary data from the Higher Education Coordinating Board shows that total ORP contributions made by higher education institutions from all sources of funds are \$208.2 million for fiscal year 2002. This amount includes all general academic institutions, health-related institutions, and community and technical colleges. Twenty-eight percent of this amount is for individuals who receive the 6 percent contribution rate and three percent of this amount is for individuals at the 7.31 percent contribution rate. The remaining individuals are at the 8.5 percent contribution rate.

The amount necessary to increase the contribution level for all of these individuals up to 8.5 percent is \$25.6 million. This is calculated based on multiplying the total salary amounts by the difference between 8.5 percent and the current contribution level of 6 percent or 7.31 percent.

According to information prepared by the Coordinating Board, Educational and General appropriated funds represent 49 percent of total funds at higher education institutions. The other 51 percent includes non-appropriated funds such as federal funds and designated tuition. Current general revenue appropriations for ORP are based on a state contribution rate of 6 percent. It is assumed that the current state contribution rate from General Revenue will remain at 6 percent and that the increased contribution amount of \$12,526,909, or 49 percent of the total increase of \$25.6 million, would come from appropriated Other Educational and General Income.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 720 The University of Texas System Administration, 781 Higher Education Coordinating Board, 710 Texas A&M University System Administrative and General Offices, 733 Texas Tech University, 758 Board of Regents, Texas State University System Central Office, 769 University of North Texas System Administration, 783 University of Houston System Administration

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