LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 27, 2003

TO: Honorable Tom Craddick, Speaker of the House, House of Representatives

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB752** by Woolley (Relating to the administration of public retirement systems for police officers in certain municipalities.), **As Passed 2nd House**

No fiscal implication to the State is anticipated.

Local Government Impact

The bill would increase the statutory level of benefits for the Houston Police Officer's Pension fund. The statute has a provision, which allows the pension system to increase benefits if they reach an agreement with the city. Ostensibly the bill would implement exactly the level of benefits included in an agreement reached July 1, 2001 between the pension system and the board. If however, the July 1, 2001 agreement is not binding or permanent, and benefits could have been reduced by another agreement, then by enacting the bill there would be a fiscal impact, since the city would be obligated to increase contributions.

The current actuarially required contribution rate for the city of Houston is 12.4 percent for plan year 2003, which equals $34 million in 2003, though Houston is anticipated to only pay $29 million. This contribution rate increases to 22.0 percent in plan year 2007 due to the realization of market losses as of July 1, 2002; the corresponding city contribution is $79 million. Under the proposal, the actuarially required city contribution immediately increases to 24.4 percent, or $62 million if applied to the 2003 payroll. The contribution would now rise to 36.3 percent in plan year 2007 due to the realization of market losses as of July 1, 2002; the corresponding city contribution is $126 million. So the additional annual long-term cost to the city for the proposal would be $47 million by 2007, which is on top of the already expected annual increase of $50 million above the current level.

The July 1, 2002 actuarial valuation (which assumes the benefit increase) gave the actuarial accrued liability as $2,594 million, and the market value of assets as $1,948 million, for an unfunded liability of $645 million. As of December 31, 2002, the market value of assets was $1,823 million. The actuarial accrued liability is projected to grow by roughly one half year at 8.5 percent interest, from $2,594 million to $2,704 million. So the full value of unfunded liabilities is estimated to increase by roughly $235 million, to $880 million as of December 31, 2002. If the additional $235 million increase in unfunded liabilities were paid off as a level dollar amount over 30 years, it would cost $20 million annually, though it would be closer to $14 million in 2007 if paid off under a more typical actuarial approach.

So if the city is able to earn 8.5 percent return on its assets from December 31, 2002, the city appears to currently be facing a $64.5 million increase in annual contributions over the next few years. Under the provisions of the bill, the city would be facing an increase of $111.8 million in annual contributions over the next several years. The contribution increases would all be greater if investment experience was below 8.5percent, and would be lesser if investment experience was continually better than 8.5 percent.

Source Agencies:

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