LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 8, 2003

TO: Honorable Frank Madla, Chair, Senate Committee on Intergovernmental Relations

FROM: John Keel, Director, Legislative Budget Board

IN RE: **SB1696** by Wentworth (Relating to the issuance of obligations by political subdivisions of the state to pay unfunded liabilities to public pension funds.), **As Introduced**

No fiscal implication to the State is anticipated.

Local Government Impact

The bill would allow political subdivisions of the state, other than school districts, to issue pension obligation bonds for unfunded pension liabilities for pension plans. Pension plans would have the proceeds available to pay benefits and for investment.

Under current law and actuarial standards, unfunded liabilities should be amortized by a pension plan sponsor over some period, often as much as 30 years. The required payments are calculated as an annuity whose present value is the unfunded liability, and at an interest rate equal to the plan's interest rate assumption. In many cases, these annuities may be structured to have increasing payments over time.

A political subdivision that issued a pension obligation bond under the provisions of the bill for a specific unfunded liability would not have to make the above payments, but would instead pay for debt service on the bond. If the plan were able to make greater investment returns than the interest rate paid for the bond, there would generally be a positive fiscal impact on the plan sponsor. If the earned investment returns were lower, there would generally be a negative fiscal impact on the plan sponsor. There would be short-term positive fiscal impacts to plan sponsors if the bond debt service payments were lower than the actuarially required contributions, though these may be balanced by higher long-term payments, including interest. In certain circumstances, such bonds may assist plans with potential cash flow problems, especially those with relatively illiquid assets such as real estate.

Source Agencies: 347 Public Finance Authority
LBB Staff: JK, DLBa, WM