

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATURE 3rd CALLED SESSION - 2006

May 5, 2006

TO: Honorable Craig Eiland, Chair, House Committee on Pensions & Investments

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: HB73 by Eiland (Relating to public financing of the public education employee retirement system and certain retirement benefits; making an appropriation.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB73, Committee Report 1st House, Substituted: a negative impact of (\$310,000,000) through the biennium ending August 31, 2007.

Appropriations:

Fiscal Year	Appropriation out of GENERAL REVENUE FUND 1
2007	\$310,000,000
2008	\$0

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2007	(\$310,000,000)
2008	(\$289,721,589)
2009	(\$304,207,669)
2010	(\$319,418,052)
2011	(\$335,388,955)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from GENERAL REVENUE FUND 1	Probable Savings/(Cost) from EST OTH EDUC & GEN INCO 770	Probable Revenue Gain/ (Loss) from TRS TRUST ACCOUNT FUND 960
2007	(\$310,000,000)	\$0	\$310,000,000
2008	(\$289,721,589)	(\$13,476,543)	\$303,198,132
2009	(\$304,207,669)	(\$14,150,370)	\$318,358,039
2010	(\$319,418,052)	(\$14,857,888)	\$334,275,940
2011	(\$335,388,955)	(\$15,600,783)	\$350,989,738

Fiscal Analysis

Section 1 of the bill would require the state to contribute an amount sufficient to fund the actuarial liability of the Teacher Retirement System (TRS) within a 30-year funding period each fiscal year based on the annual August 31st actuarial valuation beginning in fiscal year 2008.

Section 2 of the bill would require TRS to make a one-time supplemental payment in January 2007 to eligible annuitants in an amount equal to the lesser of \$2,000 or the gross amount of the regular monthly annuity payment to which an annuitant is entitled in December 2006.

Section 3 of the bill would appropriate an estimated \$310 million in General Revenue to TRS for the purpose of funding the supplemental payment required under the bill.

The bill would take effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If the bill does not receive the vote necessary for immediate effect, the bill would take effect on the 91st day after the last day of the legislative session.

Methodology

As of the August 31, 2005 actuarial valuation for the TRS retirement fund, the state contribution rate required to fund the unfunded liability within the required 30-year funding period was estimated at 7.19 percent of payroll. For purposes of this estimate, it is assumed that the 7.19 percent rate estimated for that analysis would still apply for the purposes of contributions beginning in fiscal year 2008.

The estimated cost of increasing the state contribution rate from the current rate of 6 percent to 7.19 percent would be \$290 million in General Revenue and \$13.5 million in General Revenue-Dedicated, Estimated Other Education and General Income, funds in fiscal year 2008. The estimated cost would increase to \$335 million in General Revenue and \$16 million in General Revenue-Dedicated funds by fiscal year 2011. For purposes of this estimate, growth in TRS-covered payroll is estimated at 5 percent annually.

The cost of providing the one-time supplement required by the bill is estimated at \$310 million in fiscal year 2007. The bill appropriates \$310 million in General Revenue in fiscal year 2007 for the purpose of providing the supplement.

Local Government Impact

The state contribution to TRS only applies to salary paid at the statutory minimum. School districts make the required contribution on salary amounts paid above the statutory minimum at the same rate as the state. Increased district payments associated with an increase to a 7.19 percent contribution rate are estimated at \$34 million in fiscal year 2008, increasing to \$40 million by fiscal year 2011.

Source Agencies: 323 Teacher Retirement System, 304 Comptroller of Public Accounts

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