

LEGISLATIVE BUDGET BOARD
Austin, Texas

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

April 26, 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 public education employee retirement; making an appropriation.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB73, As Introduced: a negative impact of (\$300,000,000) through the biennium ending August 31, 2007.

Appropriations:

Fiscal Year	Appropriation out of GENERAL REVENUE FUND 1
2007	(\$300,000,000)
2008	\$0

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2007	(\$300,000,000)
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	(\$300,000,000)	(\$13,954,648)	\$313,954,648
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)	\$334,275,941
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 fully fund the liability for all retirement and death benefits of the Teacher Retirement System (TRS) each fiscal year beginning with fiscal year 2008. The minimum state contribution required by statute would remain at 6 percent of payroll. The maximum state contribution of 10 percent of payroll under current law

would be eliminated. The provision in the Texas constitution establishing a maximum state contribution rate of 10 percent is not affected by the bill.

Section 2 of the bill would appropriate \$300 million in General Revenue for the purpose of making retirement contributions on behalf of public education employees in fiscal year 2007.

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 of 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 estimating 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, 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.

The bill would appropriate \$300 million in General Revenue in fiscal year 2007 for retirement contributions for public education employees. For purposes of this estimate, it is assumed that "public education employees" refers to all TRS-covered employees. Meeting state requirements that benefits be paid from the same funding source as that from which salary is paid would require an additional expenditure of an estimated \$14 million in General Revenue-Dedicated funds in fiscal year 2007. These amounts correspond roughly to a 7.29 percent contribution rate for fiscal year 2007.

The TRS consulting actuary indicates that since the bill would require that the state contribute an amount necessary to produce a 30-year funding period for fiscal year 2008, the provisions would produce a 30-year funding period for the 2007 actuarial valuation. It is possible that the additional contributions during fiscal year 2007 could produce a 30-year or less funding period for the 2006 valuation, dependent upon actual demographic and economic experience during fiscal year 2006.

All estimates assume a 5 percent annual growth in covered payroll.

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 \$33 million in fiscal year 2007, increasing to \$40 million by fiscal year 2011 statewide.

Source Agencies: 323 Teacher Retirement System, 701 Central Education Agency

LBB Staff: JOB, SR, UP, JSc