

LEGISLATIVE BUDGET BOARD
Austin, Texas

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

April 24, 2006

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

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

IN RE: SB13 by Duncan (Relating to the state retirement contribution for public education employees; making an appropriation.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB13, As Introduced: a negative impact of (\$51,011,406) through the biennium ending August 31, 2007.

Appropriations:

Fiscal Year	Appropriation out of <i>GENERAL REVENUE FUND</i> 1
2006	\$0
2007	(\$50,000,000)

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2007	(\$51,011,406)
2008	(\$53,561,975)
2009	(\$56,240,073)
2010	(\$59,052,077)
2011	(\$62,004,681)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>GENERAL REVENUE</i> <i>FUND</i> 1	Probable Savings/(Cost) from <i>EST OTH EDUC & GEN</i> <i>INCO</i> 770	Probable Revenue Gain/ (Loss) from <i>TRS TRUST ACCOUNT</i> <i>FUND</i> 960
2007	(\$51,011,406)	(\$2,372,821)	\$53,384,226
2008	(\$53,561,975)	(\$2,491,462)	\$56,053,436
2009	(\$56,240,073)	(\$2,616,035)	\$58,856,108
2010	(\$59,052,077)	(\$2,746,836)	\$61,798,913
2011	(\$62,004,681)	(\$2,884,178)	\$64,888,859

Fiscal Analysis

Section 1 of the bill would appropriate \$50 million in General Revenue to the Teacher Retirement System (TRS) in fiscal year 2007 for the purpose of making retirement contributions for public education employees.

Section 2 of the bill indicates that the \$50 million appropriation is intended to reflect a 6.22 percent state rate for retirement contributions to TRS.

Methodology

For purposes of this estimate, it is assumed that the intent of Section 2 is to permanently increase the state contribution rate from the current 6.00 percent to 6.22 percent from fiscal year 2007 going forward. The rate would apply to contributions made on behalf of all TRS members, including both public education and higher education employees.

The estimated cost of increasing the state contribution rate from the current rate of 6 percent to 6.22 percent would be \$51 million in General Revenue and \$2.4 million in General Revenue-Dedicated. Compared with the cost associated with a 6.00 percent contribution rate, those costs would increase to \$62 million in General Revenue and \$2.9 million in General Revenue-Dedicated by fiscal year 2011.

As of the August 31, 2005 actuarial valuation of the TRS retirement fund, the funding period for the unfunded liability was estimated at "never." The 6.22 percent rate contemplated in this bill is below the 7.19 percent rate stipulated in the valuation as being required to amortize the unfunded liability within the required 30-year funding period. The valuation did estimate that due to the recognition of deferred asset gains, the amortization period would reach a level below the 30-year period by 2009 if the 8 percent annual investment return assumption is met.

According to the consulting actuary for TRS, the provisions of the bill would have no impact on the unfunded liability or normal cost. However, the additional contributions would shorten the expected time by which the amortization period reaches the 30-year standard to 2008.

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 6.22 percent contribution rate are estimated at \$6.1 million in fiscal year 2007, increasing to \$7.4 million in fiscal year 2011 statewide.

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

LBB Staff: JOB, SD, UP, JSc