LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 21, 2005

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

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

IN RE: **SB522** by Armbrister (Relating to the Texas Emergency Services Retirement System; providing an administrative penalty.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB522, Committee Report 2nd House, Substituted: an impact of $0 through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	($350,000)
2009	($350,000)
2010	($350,000)
2011	($350,000)
2012	($350,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Probable Savings/(Cost) from *EMS PERSONNEL RETIREMENT TRUST FUND* 976
2008	($350,000)	$350,000
2009	($350,000)	$350,000
2010	($350,000)	$350,000
2011	($350,000)	$350,000
2012	($350,000)	$350,000

Fiscal Analysis

The bill restates the statutes governing the Texas Emergency Services Retirement System. It allows for major plan design changes to this fund, which is currently actuarially unsound. The most significant change is in the calculation of the benefit amount. Currently local departments make monthly contributions on behalf of members, and the basic benefit is six times the average monthly contributions by a department. The bill would allow the board, by rule, to define the benefit as a percentage (multiplier) times average contributions times years of service, or by some other formula. The benefit multiplier or formula would be determined so that the fund could be maintained actuarially sound, assuming maximum state contributions. The board could change the benefit formula for all participants who were not retirees.

Other significant changes would allow the board to make rules to determine vesting periods, and to provide for cost of living increases. Changing vesting periods could significantly improve the actuarial status of the fund.

Methodology

The determination of benefit multiplier or formula must be made so that the fund could be maintained as actuarially sound, assuming maximum state contributions. It could be made in such a way as to improve the actuarial status of the fund, which would lower the amount of required contributions by the state; or, combined with other changes, it could be made in such a way as to actually increase required state contributions.

As in current statute, the bill requires that if the fund is unsound, the state shall make contributions, up to one-third of the total of all contributions by governing bodies. This amount is currently estimated by the Fire Fighters' Pension Commissioner to be $1.38 million in the 2006-07 biennium. As described below, the changes proposed by the bill are likely to increase the potential liability to the state from this source. The bill also allows the board to request additional funds from local departments to make the fund actuarially sound, though such a request also increases the state's liability arising from one third of all local contributions.

The bill would allow the Texas Emergency Services Retirement System board to increase the minimum contributions for local departments from the current level of $12 per month per member, or to set a maximum contribution. The minimum could be doubled, and it would still be less than the original minimum, after adjusting for inflation. Recent public testimony by the Fire Fighters' Pension Commissioner stated 52 percent of the local departments are at the minimum. So, if the minimum contribution were doubled, the total contributions by local departments would increase by at least 50 percent. Then the state's maximum contribution would increase by at least 50 percent. A benefit percentage could then be set assuming these higher state contributions.

The above tables reflect a scenario where the state was contributing a third of current local contributions, and due to an increase in the minimum contribution, the state was required to increase its contributions by 50 percent, or $350,000 per year. No fiscal impact is shown for 2006-07 since plan changes could be made during that time, but state contribution increases would generally not be appropriated until the 2008-09 biennium. This could change if a request was made for emergency funds by the agency, as occurred during the 2004-05 biennium.

An alternate scenario, which we have not shown in the tables, could show a reduction in required state contributions, though this would require the board to make net benefit reductions.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 325 Fire Fighters' Pension Commissioner

LBB Staff: JOB, SR, WP, WM