LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 24, 2005

TO: Honorable Robert Duncan, Chair, Senate Committee on State Affairs

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 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB522, Committee Report 1st 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 makes major plan design changes to this fund, which is currently actuarially unsound. 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 Firefighters' 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 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 times average contributions times years of service. The benefit percentage would be one that allows the fund to be maintained as actuarially sound, assuming maximum state contributions. This determination 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.

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. This amount 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. The benefit percentage could then be set assuming these higher state contributions.

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.

There is some concern that the change in benefit formula does not make reference to making changes in such a way that current vested benefits are not materially reduced. It is unclear if the board would have full discretion to make changes to the benefit structure in such a way as to satisfy all relevant federal statues.

Methodology

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. We assume no fiscal impact 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

There could be significant fiscal impacts to participating local departments. One cause would be if the board requires an increase in the minimum contributions from the current $12 per month per participating member. Another source of fiscal impacts to local departments would be if additional local contributions were requested to amortize the unfunded actuarial accrued liability.

Source Agencies:

LBB Staff: JOB, SR, WP, WM