

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 14, 2009

TO: Honorable Vicki Truitt, Chair, House Committee on Pensions, Investments & Financial Services

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

IN RE: HB2120 by Olivo (Relating to eligibility for custodial officer service in the Employees Retirement System of Texas by certain juvenile correctional officers and caseworkers employed by the Texas Youth Commission.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2120, As Introduced: a negative impact of (\$6,106,033) through the biennium ending August 31, 2011.

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
2010	(\$3,043,450)
2011	(\$3,062,583)
2012	(\$3,124,992)
2013	(\$3,193,118)
2014	(\$3,265,672)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>General Revenue Fund</i> 1	Probable Savings/ (Cost) from <i>GR Dedicated Accounts</i> 994	Probable Savings/ (Cost) from <i>Federal Funds</i> 555	Probable Savings/ (Cost) from <i>Other Special State Funds</i> 998
2010	(\$3,043,450)	(\$67,329)	(\$329,368)	(\$11,156)
2011	(\$3,062,583)	(\$68,482)	(\$331,465)	(\$11,324)
2012	(\$3,124,992)	(\$72,913)	(\$354,780)	(\$12,069)
2013	(\$3,193,118)	(\$77,652)	(\$377,841)	(\$12,853)
2014	(\$3,265,672)	(\$82,699)	(\$402,400)	(\$13,689)

Fiscal Year	Probable Savings/ (Cost) from <i>State Highway Fund</i> 6
2010	(\$293,464)
2011	(\$298,502)
2012	(\$317,808)
2013	(\$338,465)
2014	(\$360,466)

Fiscal Analysis

The bill would amend Section 811.001 and 813.506 of Government Code by adding employees of the Texas Youth Commission (TYC) who are employed as juvenile correctional officers or caseworkers to the definition of custodial officers, adding members to the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF) who are currently classified as regular state employees. The changes would only apply to service that is performed and certified as custodial officer service on or after the effective date, and there would be no retroactive certification of service for the employees.

The bill would take effect September 1, 2009.

Methodology

ERS identified 2,300 employees of TYC that would be affected by the bill as of August 31, 2008. The bill would not increase the number of employees or the valuation payroll of ERS, but it would increase the number of employees covered by LECOSRF. The provisions of the bill would increase the UAL by \$1.4 million and increase the actuarially sound contribution rate from 19.38 percent to 19.41 percent. This would result in an additional cost of \$3,363,324 in All Funds (\$2,088,044 in General Revenue-related Funds) to the ERS retirement fund. Additionally, the bill's provisions will result in a cost to LECOSRF of \$4,153,800 in General Revenue funds for the 2010-11 biennium.

Based on the February 28, 2009 actuarial valuation update, the Employees Retirement System (ERS) actuary has projected that the actuarially sound contribution rate for fiscal years 2010 and 2011 is 19.38 percent. The current total contribution rate of 12.45 percent does not cover the normal cost requirement of 13.37 percent, and there is no remaining contribution to pay down the existing unfunded accrued liability (UAL). Therefore, the UAL will never be amortized with the current 12.45 percent total contribution rate, so the ERS retirement fund is considered actuarially unsound. Given the current member contribution of 6 percent, the state contribution rate would have to increase to 13.38 percent to meet the actuarially sound contribution rate of 19.38 percent. This would translate to a cost of \$776,927,842 in All Funds (\$482,338,274 in General Revenue-related Funds). Additionally, Article 16, Section 67 of the Texas Constitution limits the state contribution rate to 10 percent.

Based on the February 28, 2009 actuarial valuation update of LECOSRF, the actuarially sound contribution rate for fiscal years 2010 and 2011 is 3.12 percent. The current state contribution rate of 1.59 percent does not cover the normal cost requirement of 2.18 percent, and there is no remaining contribution to pay down the existing unfunded accrued liability (UAL). Therefore, the UAL will never be amortized with the current 1.59 percent contribution rate, so LECOSRF is considered actuarially unsound. ERS reports that the normal cost rate for the juvenile correction officers and caseworkers employed by TYC is less than the current contribution rate for LECOSRF. As a result, the bill's provisions would decrease the actuarially sound contribution rate from 3.12 percent to 3.01 percent. This would result in a cost of \$36,557,157 in All Funds (\$33,276,805 in General Revenue-related Funds) to make the fund actuarially sound.

As required by Section 811.006 of the Government Code, any legislation that reduces contributions or interest rates, credits additional service, or provides any benefit improvements that increase the actuarial cost of ERS, will require the actuarially sound contribution for the new benefit structure. Since the legislation improves benefits and increases the actuarial costs of ERS, the state contributions would have to increase for both plans (to 13.41 percent for ERS, and to 3.01 percent for LECOSRF) in order to become actuarially sound and comply with Government Code.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System, 694 Youth Commission

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