

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: HB3493 by Corte (Relating to credit in the Employees Retirement System of Texas for service as a custodial officer.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3493, As Introduced: a negative impact of (\$231,274) 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	(\$115,637)
2011	(\$115,637)
2012	(\$115,637)
2013	(\$115,637)
2014	(\$115,637)

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	(\$115,637)	(\$1,535)	(\$449)	\$0
2011	(\$115,637)	(\$1,535)	(\$449)	\$0
2012	(\$115,637)	(\$1,535)	(\$449)	\$0
2013	(\$115,637)	(\$1,535)	(\$449)	\$0
2014	(\$115,637)	(\$1,535)	(\$449)	\$0

Fiscal Year	Probable Savings/ (Cost) from <i>State Highway Fund</i> 6
2010	(\$11,101)
2011	(\$11,101)
2012	(\$11,101)
2013	(\$11,101)
2014	(\$11,101)

Fiscal Analysis

The bill would add Section 813.5061 to Government Code to allow a member who is employed by the Board of Pardons and Paroles or the Texas Department of Criminal Justice as a parole officer to establish service credit as a custodial officer in the Employees Retirement System (ERS) and the Law Enforcement and Custodial Officers (LECOS) retirement fund for service performed as a parole officer before September 1, 1999.

The bill would take effect immediately upon a two-thirds vote of all members of elected to each house of the Legislature, or September 1, 2009.

Methodology

ERS identified 35 current members of ERS that would benefit from the legislation. The bill would not increase the actuarially sound contribution rate to the ERS retirement fund, but would increase the UAL of the fund by \$0.5 million. Additionally, the bill's provisions would result in an increase of the LECOS actuarially sound contribution rate from 3.12 percent to 3.13 percent. This would result in an additional cost of \$257,445 in All Funds (\$234,344 in General Revenue-related Funds), as seen in the tables above.

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 LECOS, 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 LECOS is considered actuarially unsound. The cost of increasing the state contribution rate to 3.12 percent from the current contribution rate is \$39,389,049 in All Funds (\$35,854,586 in General Revenue-related Funds) for the 2010-11 biennium.

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 13.38 percent for ERS, and to 3.13 percent for LECOS) 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, 696 Department of Criminal Justice

LBB Staff: JOB, JRO, MS, DEH