

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 4, 2013

TO: Honorable Bill Callegari, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2432 by Murphy (Relating to benefits from and administration of certain public retirement systems; providing civil penalties.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2432, Committee Report 1st House, Substituted: a negative impact of (\$198,110) through the biennium ending August 31, 2015.

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
2014	(\$100,305)
2015	(\$97,805)
2016	(\$97,805)
2017	(\$97,805)
2018	(\$97,805)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from General Revenue Fund	Change in Number of State Employees from FY 2013
	1	
2014	(\$100,305)	1.0
2015	(\$97,805)	1.0
2016	(\$97,805)	1.0
2017	(\$97,805)	1.0
2018	(\$97,805)	1.0

The bill would exempt the Employees Retirement System, the Teacher Retirement System, the Texas County and District Retirement System, the Texas Municipal Retirement System, and the Judicial Retirement System Plan Two from the provisions of the bill.

The bill would amend the Government Code to require the disclosure of potential conflicts of interest among members of a governing body of a public retirement system or certain persons under contract for services related to the management of system assets. The bill would prohibit the acceptance of any benefit with an aggregate value in a calendar year of more than \$1,000, with the exception of certain expenses to attend a conference with at least 50 attendees of more than one public retirement system. The bill would prohibit employment and contracts for former members of the system's governing body within the first year that the member ceases to be a member of the governing body. The bill would require the Pension Review Board (PRB) to adopt guidelines relating to conflict of interest disclosure.

The bill would amend the Government Code regarding theft by a person in relation to a service provided to a public retirement system, with a civil penalty up to \$250,000. The bill would amend the Government Code regarding breaches of fiduciary duty by a person in relation to a service provided to a public retirement system, with a civil penalty not to exceed \$2,000 in the aggregate for all violations of a similar nature. Either the Attorney General can seek action on behalf of a statewide retirement system, or a local prosecuting attorney can seek action on behalf of other systems.

The bill would require local retirement systems to file an annual report with the system's sponsoring authority on certain annuities paid, including the amount by which an annuity increased as a result of overtime pay.

The bill would amend the Government Code to require public retirement systems to maintain records related to the preparation of annual financial reports in accordance with the state's records retention schedule applicable to all local governments.

The bill would amend the Government Code to require the PRB to adopt guidelines for the procurement of investment managers and advisors and to allow the PRB to review the contracts with investment managers. The bill would take effect September 1, 2013.

Fiscal Analysis

The Pension Review Board estimates a need for additional staff to implement the provisions of the bill related to developing guidelines for conflicts of interest and the procurement of investment managers and advisors, and to ensure the agency's ability to review contracts of investment managers and advisors. The estimated cost is \$100,305 in fiscal year 2014, and \$97,805 in fiscal year 2015 and each year thereafter.

Methodology

The cost estimate includes one new full-time equivalent (Investment Analyst II) at the Pension Review Board, at an annual cost of \$97,305 for salary and benefits. There would be a one-time cost of \$2,500 for equipment in fiscal year 2014. In addition, beginning in fiscal year 2014 there would be a \$500 annual cost for other operating expenses.

Local Government Impact

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

The bill would require local pension plans to disclose conflicts of interest and retain records used to prepare their annual financial reports. The plans would have to submit investment contracts to the Pension Review Board (PRB) at the PRB's request. These provisions should have no material fiscal impact.

The bill would also require local pension plans to file a report with their sponsoring entities detailing annuities that began in the preceding fiscal year and the amounts based on base pay and overtime pay, as well as the aggregate amount based on overtime. This would be a new reporting requirement for the plans, but could be combined with other reports they make to their sponsoring entities. This is not estimated to have a significant fiscal impact.

The Texas Municipal Retirement System (TMRS) and the Texas County and District Retirement System (TCDRS) are exempted from the provisions of the bill.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board, 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 306 Library & Archives Commission, 323 Teacher Retirement System, 327 Employees Retirement System

LBB Staff: UP, RB, EP, PFe, WM, JW, EMO