

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

March 25, 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.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2432, As Introduced: 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 1	Change in Number of State Employees from FY 2013
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

Fiscal Analysis

The bill would amend the Government Code related to the confidentiality of individual member records of public retirement systems, including a provision to delete the sole discretion of a system to determine confidentiality.

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 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 civil penalties of \$500 per violation or \$10,000 in the aggregate for multiple violations. 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 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 Pension Review Board (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 amend the Government Code to exclude overtime pay from the final average salary for the benefit calculation of members of defined benefit plans, applicable to employees hired on or after the effective date of the bill. The bill would take effect September 1, 2013.

Methodology

The Employees Retirement System estimates there would be a minimal cost associated with implementing the provisions of the bill.

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 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 2015 there would be a \$500 annual cost for other operating expense.

Local Government Impact

Under the bill, local pension plans would have to seek Attorney General review of open records requests, which could have a small but likely non-material fiscal impact. Provisions requiring disclosure of conflicts of interest and limitations on acceptance of benefits should similarly have no material fiscal impact.

Future employees of public retirement systems whose benefits are based on a final average salary would no longer have overtime applied to that calculation. This would reduce the affected cities' and members' contributions and the annuities of affected employees. To the extent that employees are able to accrue more overtime near retirement, future savings to the governmental sponsors could be significant. The impact would likely be greatest for sponsors of police and fire plans.

The Texas Municipal Retirement System (TMRS) reports it would have to seek the Attorney General's review of open records requests and comply with the filing requirements to the Pension Review Board, the costs of both of which would be insignificant. If the additional records retention requirements differ from TMRS' existing retention requirements, this section could result in additional costs.

TMRS and the Texas County and District Retirement System (TCDRS) do not directly use a final average salary since the benefit is based on contributions over the whole working period of the employee. TMRS was unsure if the elimination of overtime would apply to the system; if it did apply they, TMRS would need to make changes to their internal benefit accrual systems which they estimate as moderately expensive.

TCDRS and the Texas Association of Counties report that this fiscal impact from the bill would not be significant.

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

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