

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 30, 2013

TO: Honorable David Dewhurst, Lieutenant Governor, Senate

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB200 by Patrick (Relating to the continuation and functions of the State Pension Review Board.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB200, As Passed 2nd House: a positive impact of \$149,838 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	\$73,669
2015	\$76,169
2016	\$76,169
2017	\$76,169
2018	\$76,169

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2013
2014	\$73,669	2.5
2015	\$76,169	2.5
2016	\$76,169	2.5
2017	\$76,169	2.5
2018	\$76,169	2.5

The Pension Review Board (PRB) is subject to the Sunset Act and will be abolished on September 1, 2013 unless continued by the Legislature. The bill would amend the Government Code to continue the PRB until September 1, 2025.

The bill would amend the Government Code to clarify statute related to the agency's education and training activities. The bill would amend statute to include certain standard Sunset across-the-board recommendations related to potential conflicts of interest and alternative dispute resolution provisions.

The bill would amend the Government Code provisions related to reporting requirements for retirement systems, including exemptions from certain reporting for defined contribution plans and volunteer firefighter retirement systems organized under the Texas Local Fire Fighters Retirement Act. The bill would reduce the members of the board from nine to seven, eliminating the two legislative positions, the current terms for which will expire January 31, 2017. Additionally, the bill would prohibit statewide retirement systems from investments in companies that do business in Iran, and requires PRB to develop and maintain a list of scrutinized companies, providing it to each state retirement system.

The bill would amend the Texas Local Fire Fighters' Retirement Act, Article 6243e, Vernon's Texas Civil Statutes; contingent on the failure of legislation to pass related to the discontinuation of the Fire Fighters' Pension Commissioner (FFPC) and transfer of certain duties, to specify that PRB must provide necessary assistance, including education training, technical assistance, and other information to local fire fighter retirement systems. The bill would direct appeals of local fire fighter retirement system board decisions to the State Office of Administrative Hearings (SOAH) instead of the Fire Fighters' Pension Commissioner, requiring that PRB receive the appeal notices and refer appeals to SOAH.

The bill would take effect September 1, 2013.

Fiscal Analysis

The Pension Review Board estimates a cost of \$12,000 per fiscal year to implement the requirement to develop and maintain a list of scrutinized companies related to the prohibition of investments in Iran by state retirement systems.

Contingent on the failure of legislation to pass related to the discontinuation of the Fire Fighters' Pension Commissioner and transfer of certain duties, PRB estimates a cost of \$87,331 in fiscal year 2014 and \$84,831 in fiscal year 2015 and each year thereafter to implement the requirement to provide training, technical assistance, and other information to local fire fighter retirement systems. To provide similar services, the FFPC currently spends approximately \$173,000 per fiscal year, including 3.5 FTEs.

The Legislative Budget Board estimates a potential savings of \$73,669 in fiscal year 2014 and \$76,169 in fiscal year 2015 and 2.5 FTEs. The estimate assumes that training costs will be similar to those of the FFPC and recovered by PRB as Appropriated Receipts through fees charged participants as necessary.

Methodology

The Pension Review Board would contract with an external vendor that specializes in providing the necessary investment information at an estimated cost of \$12,000 per fiscal year to implement the requirement to develop and maintain a list of scrutinized companies related to the prohibition of investments in Iran by state retirement systems.

Contingent on the failure of legislation to pass related to the discontinuation of the Fire Fighters' Pension Commissioner and transfer of certain duties, PRB estimates the need for an additional Program Specialist III at a cost of \$65,000 per fiscal year plus \$19,331 per fiscal year for associated employee benefits to provide training, technical assistance, and other information to local fire fighter retirement systems. PRB estimates an additional \$500 in each fiscal year for other operating expenses.

The potential savings of \$173,000 per fiscal year and 3.5 FTEs due to the elimination of the FFPC is offset by the cost to PRB of \$87,331 in fiscal year 2014 and \$84,831 in fiscal year 2015 for one additional FTE to absorb the cost of certain services previously provided by the FFPC.

Based on the responses from the Office of the Attorney General, State Office of Administrative Hearings, Employees Retirement System, Teacher Retirement System, and Comptroller of Public Accounts, any costs associated with the bill could be absorbed within the affected agencies' existing resources.

According to the Comptroller of Public Accounts, the fiscal impact related to returns on investments due to the prohibition of investing in private entities doing business in Iran cannot be determined, because the difference in returns between affected investments and those that would replace them cannot be estimated. Affected statewide retirement systems do not anticipate an impact to investment returns. The bill would include a provision for inapplicability of the divestment requirements when such action is inconsistent with the fiduciary responsibilities of a retirement system, including the duty of care under Section 67, Article 16, of the Texas Constitution.

Technology

The Pension Review Board estimates a one-time cost of \$2,500 in fiscal year 2014 for equipment necessary for an additional Program Specialist to implement the requirement of the bill to have a designated person that specializes in providing technical assistance and training to local fire fighter retirement systems.

Local Government Impact

The bill could transfer certain services currently provided by the office of the Fire Fighters' Pension Commissioner (FFPC) to local pension funds organized under the Texas Local Fire Fighters Retirement Act (TLFFRA) to the State Pension Review Board (PRB). If these services are transferred, PRB must provide similar services. No significant fiscal impact to local governments is anticipated.

According to the Texas Municipal Retirement System (TMRS), currently, all of TMRS investments in publicly traded equity securities are passively managed by external managers in index strategies through commingled funds. Under the provisions of the bill, these strategies and structures would not be subject to the investment requirements. In addition, TMRS has also reviewed its bond portfolio and does not own prohibited securities in that asset class. While TMRS cannot estimate the cost of implementing the provisions of the section of the bill prohibiting certain investments with Iran, the cost is not anticipated to be significant based on fiscal impact criteria.

According to the Texas County and District Retirement System (TCDRS), because TCDRS may cease divesting from or may reinvest in listed companies to the extent necessary to comply with its fiduciary responsibilities, no significant fiscal impact is anticipated. In addition, the increased administrative duties imposed by the section of the bill prohibiting certain investments with Iran will result in some additional costs, but these costs are not anticipated to be significant.

Source Agencies: 116 Sunset Advisory Commission, 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 325 Fire Fighters' Pension Commissioner, 327 Employees Retirement System, 338 Pension Review Board

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