

BILL ANALYSIS

C.S.H.B. 2572
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Pensions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

According to interested parties, the City of Houston currently is paying a considerable percentage of firefighter payroll as the employer contribution to the Houston firefighters' relief and retirement fund. The parties also note that the city recently reached an agreement with the fund and the Houston firefighters union that is projected to decrease costs for the city in excess of \$70 million over the next several years by increasing employee contributions and decreasing employer contributions. C.S.H.B. 2572 seeks to implement the terms of this agreement by amending the applicable law.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 2572 amends the law to require each eligible firefighter participating in a deferred retirement option plan (DROP) in a municipality with a population of at least 1,600,000 to contribute to the firefighters' relief and retirement fund an amount equal to 100 percent of the DROP participant's unused leave pay as it becomes payable to the employee, to be credited by the fund to the participant's DROP account. The bill defines "unused leave pay" as the accrued value of unused leave time payable to an employee after separation from service in accordance with applicable law and agreements. The bill requires the fund to credit to a DROP participant's DROP account the amount of unused leave pay that is due to the participant and received by the fund as a contribution from the municipality. The bill excepts unused leave pay from the prohibition against a DROP participant's fund contributions deducted from the participant's salary after the 10th anniversary of the effective date of the participant's DROP election being credited to the participant's DROP account or otherwise increasing any benefit payable from the fund for the participant's service. The bill excludes member contributions of unused leave pay from the amount paid into the fund by member contributions for purposes of the statutory provision requiring the municipality's contributions, when added to certain contributions with respect to a qualified governmental excess benefit arrangement, to be not less than twice that amount.

C.S.H.B. 2572 sets out a schedule specifying the employee and employer contribution rates, not including contributions of unused leave pay, that are in effect for the fund's fiscal years 2016, 2017, and 2018. The bill specifies that the employee and employer contribution percentages prescribed under the schedule for fiscal year 2016 apply only to contributions made on or after

the first day of that fiscal year if the bill's effective date is on or before July 1, 2015, and that, those contribution percentages apply only to contributions made on or after the bill's effective date if that date is later than July 1, 2015. The bill's provisions relating to the contribution rate schedule and the applicability of that rate schedule for fiscal year 2016 expire July 1, 2018.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2015.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 2572 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and formatted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

INTRODUCED

SECTION 1. Section 1, Article 6243e.2(1), Revised Statutes, is amended by adding a new subsection (16-a) to read as follows:

(16-a) "Unused leave pay" means the accrued value of unused leave time due to the employee at separation from service.

SECTION 2. Section 5, Article 6243e.2(1), Revised Statutes, is amended by amending subsection (b) and adding a new subsection (c-1) to read as follows:

(b) A member may elect to participate in the DROP by complying with the election process established by the board. The member's election may be made at any time beginning on the date the member has completed 20 years of participation in the fund and is otherwise eligible for a service pension under Section 4 of this article. The election becomes effective on the first day of the month following the month in which the board approves the member's DROP election. Beginning on the effective date of the member's DROP election, amounts equal to the deductions made from the member's salary under Sections 13(c) and 13(e-1) of this article shall be credited to the member's DROP account. A member may not participate in the DROP for more than 10 years. If a DROP participant remains in active service after the 10th anniversary of the effective date of the member's DROP election, subsequent deductions from the member's salary under Section 13(c) of this article may not be credited to the member's

HOUSE COMMITTEE SUBSTITUTE

SECTION 1. Section 1, Article 6243e.2(1), Revised Statutes, is amended by adding Subdivision (16-a) to read as follows:

(16-a) "Unused leave pay" means the accrued value of unused leave time payable to an employee after separation from service in accordance with applicable law and agreements.

SECTION 2. Section 5, Article 6243e.2(1), Revised Statutes, is amended by amending Subsection (b) and adding Subsection (b-1) to read as follows:

(b) A member may elect to participate in the DROP by complying with the election process established by the board. The member's election may be made at any time beginning on the date the member has completed 20 years of participation in the fund and is otherwise eligible for a service pension under Section 4 of this article. The election becomes effective on the first day of the month following the month in which the board approves the member's DROP election. Beginning on the effective date of the member's DROP election, amounts equal to the deductions made from the member's salary under Section 13(c) or 13(e-1) of this article, as applicable, shall be credited to the member's DROP account. A member may not participate in the DROP for more than 10 years. If a DROP participant remains in active service after the 10th anniversary of the effective date of the member's DROP election, subsequent deductions from the member's salary under Section 13(c) of this article, except for

DROP account and may not otherwise increase any benefit payable from the fund for the member's service.

(c-1) Notwithstanding anything to the contrary in Subsections (b) and (c) of this section, upon separation from service, an amount equal to a DROP participant's entire unused leave pay received as a contribution from the municipality by the fund shall be credited to the DROP participant's DROP account in accordance with Section 13(c) of this article.

SECTION 3. Section 13, Article 6243e.2(1), Revised Statutes, is amended by amending subsections (c) and (d) and adding a new subsection (e-1) to read as follows:

(c) Each member in active service shall make contributions to the fund in an amount equal to 9 [8.35] percent of the member's salary at the time of the contribution~~[, and as of July 1, 2004, in an amount equal to nine percent of the member's salary at the time of the contribution]~~. In addition, each DROP participant, as identified by the fund to the municipality for purposes of this section, shall make contributions to the fund in an amount equal to 100% of the DROP participant's unused leave pay, and the unused leave pay amounts contributed as to DROP participants shall be credited to the DROP accounts of such DROP participants.

The governing body of the municipality shall deduct the member's contributions ~~[from the member's salary]~~ and shall forward the contributions to the fund as soon as practicable.

(d) The municipality shall make contributions to the fund once every two weeks in an amount equal to the product of the contribution rate certified by the board and the aggregate salaries paid to members of the fund during the period for which the contribution is made. The board shall certify the municipality's contribution rate for each year or portion of a year based on

unused leave pay, may not be credited to the member's DROP account and may not otherwise increase any benefit payable from the fund for the member's service.

(b-1) For an employee who is a DROP participant and in accordance with Section 13(c) of this article, the fund shall credit to the employee's DROP account the amount of unused leave pay that is due to the employee and received as a contribution to the fund from the municipality.

SECTION 3. Section 13, Article 6243e.2(1), Revised Statutes, is amended by amending Subsections (c) and (d) and adding Subsections (e-1) and (e-2) to read as follows:

(c) Each member in active service shall make contributions to the fund in an amount equal to nine [8.35] percent of the member's salary at the time of the contribution~~[, and as of July 1, 2004, in an amount equal to nine percent of the member's salary at the time of the contribution]~~. In addition to contributing the percentage of salary required by this subsection, each DROP participant, as identified by the fund to the municipality for purposes of this section, shall contribute to the fund an amount equal to 100 percent of the DROP participant's unused leave pay as it becomes payable to the employee. The fund shall credit any unused leave pay amount contributed by a DROP participant to the participant's DROP account.

The governing body of the municipality shall deduct each member's [the] contributions ~~[from the member's salary]~~ and shall forward the contributions to the fund as soon as practicable.

(d) The municipality shall make contributions to the fund once every two weeks in an amount equal to the product of the contribution rate certified by the board and the aggregate salaries paid to members of the fund during the period for which the contribution is made. The board shall certify the municipality's contribution rate for each year or portion of a year based on

the results of actuarial valuations made at least every three years. The municipality's contribution rate shall be composed of the normal cost plus the level percentage of salary payment required to amortize the unfunded actuarial liability over a constant period of 30 years computed on the basis of an acceptable actuarial reserve funding method approved by the board. Notwithstanding any other provision of this article, the contributions by the municipality, when added to any contributions with respect to a qualified governmental excess benefit arrangement maintained in accordance with Section 14(c) of this article, may not be less than twice the amount paid into the fund by contributions of the members, without regard to the member contributions of unused leave pay.

(e-1) Notwithstanding anything to the contrary in Subsections (c) and (d) of this section, or in section 3(d) of this article, as of the effective date of the Act adding this Subsection, the following employee and employer contribution rates, other than with regard to unused leave pay which shall be contributed in accordance with Subsection (c), shall be placed in effect for the fund's fiscal years 2016, 2017 and 2018 as indicated in the schedule below:

<u>Fiscal Year</u>	<u>Employee (% of salary)</u>	<u>Employer (% of payroll)</u>
<u>2016</u>	<u>12%</u>	<u>25.8%</u>
<u>2017</u>	<u>12%</u>	<u>24.0%</u>
<u>2018</u>	<u>12%</u>	<u>24.0%</u>

If the fund's fiscal year 2016 begins after the effective date of the Act adding this subsection, the employee and employer contribution percentages for fiscal year 2016 shall only be applied as of the effective date of the Act. This subsection expires July 1, 2018.

the results of actuarial valuations made at least every three years. The municipality's contribution rate shall be composed of the normal cost plus the level percentage of salary payment required to amortize the unfunded actuarial liability over a constant period of 30 years computed on the basis of an acceptable actuarial reserve funding method approved by the board. Notwithstanding any other provision of this article, the contributions by the municipality, when added to any contributions with respect to a qualified governmental excess benefit arrangement maintained in accordance with Section 14(c) of this article, may not be less than twice the amount paid into the fund by contributions of the members, not including member contributions of unused leave pay.

(e-1) Except as provided by Subsection (e-2) of this section and notwithstanding contribution provisions under Subsection (c) or (d) of this section or Section 3(d) of this article, and not including any contributions of unused leave pay, the employee and employer contribution rates that are in effect for the fund's fiscal years 2016, 2017, and 2018 are as follows:

<u>Fiscal Year</u>	<u>Employee (% of salary)</u>	<u>Employer (% of payroll)</u>
<u>2016</u>	<u>12%</u>	<u>25.8%</u>
<u>2017</u>	<u>12%</u>	<u>24%</u>
<u>2018</u>	<u>12%</u>	<u>24%</u>

(e-2) If the effective date of the Act enacting Subsection (e-1) of this section is on or before July 1, 2015, the employee and employer contribution percentages under Subsection (e-1) for fiscal year 2016 apply only to contributions made on or after the first day of that fiscal year. If the effective date of the Act enacting Subsection (e-1) of this section is later than July 1, 2015, the employee and employer contribution percentages under that subsection for fiscal year 2016 apply only to contributions made on or after the effective date of the Act. Subsection (e-1) of this section and this subsection expire July 1, 2018.

SECTION 4. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect August 31, 2015.

SECTION 4. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If the Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2015.