

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 29, 2015

TO: Honorable Dan Flynn, Chair, House Committee on Pensions

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1821 by Alonzo (Relating to eligibility for membership and funding of benefits for certain law enforcement, custodial, and other peace officers.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1821, As Introduced: a negative impact of (\$4,520,000) through the biennium ending August 31, 2017.

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
2016	(\$2,260,000)
2017	(\$2,260,000)
2018	(\$2,260,000)
2019	(\$2,260,000)
2020	(\$2,260,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund
	1
2016	(\$2,260,000)
2017	(\$2,260,000)
2018	(\$2,260,000)
2019	(\$2,260,000)
2020	(\$2,260,000)

Fiscal Analysis

The bill would amend Government Code to expand the definition of employees that are eligible to participate in the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF). This expanded definition would include approximately 2,300 additional state employees, primarily correctional officers at the Juvenile Justice Department and commissioned

law enforcement officers at the office of the Attorney General, as well as approximately 4,500 commissioned peace officers currently participating in the Teacher Retirement System of Texas (TRS).

The bill would take effect September 1, 2015.

Methodology

The bill would require additional state contributions to the ERS Retirement Fund for the 4,500 commissioned peace officers currently participating in TRS that would be eligible for LECOS and become members of ERS under the bill. TRS estimates that the covered payroll for the peace officers totals \$180.0 million. The state contribution under TRS is currently 6.8 percent and the contribution under ERS is 7.5 percent, resulting in an increased cost to the state totaling approximately \$1.26 million in General Revenue each fiscal year. The state would also contribute an additional 0.5 percent of payroll, the state contribution for LECOSRF for the additional eligible employees under the bill (4,500 from TRS and 2,300 from TJJ and OAG) totaling approximately \$1.36 million in General Revenue each fiscal year. This would result in a cost to the state of approximately \$2.62 million in General Revenue, annually.

Based on the projected August 31, 2015 actuarial valuation, the Employees Retirement System (ERS) actuary estimates the bill would increase the unfunded actuarial accrued liability (UAAL) by \$8.1 million from \$8,078.9 million to \$8,087.0 million. Current TRS members would begin participating in ERS, providing additional payroll but have very little accrued liability in ERS. This could result in an actuarially sound total contribution rate that goes down as a percentage of payroll, from 19.11 percent to 19.00 percent for the ERS plan and from 3.10 percent to 3.04 percent for LECOSRF. However, based on the current plan provisions and the 2016 fiscal year total contribution rate of 15.20 percent for the ERS plan and approximately 2.20 percent for LECOSRF, the funds would remain actuarially unsound.

Government Code, Sec. 811.006, requires that legislation providing additional benefits that increase the actuarial cost of ERS will require a state contribution at least equal to the normal cost plus an amount necessary to amortize the unfunded liabilities of the new benefits structure over a 31-year period. Because the bill would increase benefits for the ERS fund and the LECOS fund, ERS estimates the state contribution would need to increase to 11.8 percent of payroll for the ERS Retirement fund and to 2.54 percent of payroll for the LECOS fund. ERS estimates the additional costs to comply with statute for total approximately \$281.1 million in fiscal year 2016, \$272.6 million in fiscal year 2017, \$282.3 million in fiscal year 2018, \$292.3 million in fiscal year 2019, and \$302.6 million in fiscal year 2020. These amounts are not included in the tables above. Note that this analysis is isolated to the provisions of this legislation and changes to either the benefit plan or to state contributions would shift the analysis.

According to the Teacher Retirement System of Texas (TRS), there is no significant fiscal or actuarial impact to TRS. The TRS actuary estimates a decrease in UAAL of \$120 million and an increase in the funding period to amortize unfunded liabilities of 0.1 years from 29.3 years to 29.4 years, still under the statutory guideline of 31 years. The latter is due to the loss of contributions on the associated payroll of peace officer employees electing to transfer to ERS.

Local Government Impact

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

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 327 Employees Retirement System, 644 Juvenile Justice Department

LBB Staff: UP, AG, EP, EMO, KFa