LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 24, 2017

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3158** by Flynn (Relating to the retirement systems for and the provision of other benefits to police and fire fighters in certain municipalities; creating a criminal offense.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated.

The bill would amend the Revised Statutes relating to the benefits of police and fire fighters in the City of Dallas. The bill would modify many components of the retirement system. This analysis focuses on the most significant changes.

The Dallas Police and Fire Pension System (Pension) has three tiers based on date of hire. The bill would increase the retirement age for Tier 1 (hired before 1/1/2007) and Tier 2 (hired between 1/1/2007 and 2/28/2011) from 50 to 58, and increase Tier 3 (hired after 2/28/2011) from 55 to 58. Early retirement is a current option for Tiers 1 and 2 beginning at age 45. The bill would allow members in all three tiers to retire at age 53 with reduced benefits.

The bill would change the maximum benefit for Tiers 1 and 2 from 96 percent of computation pay to 90 percent of computation pay. Computation pay is based on the pay rate for an employee's highest civil service rank, educational incentive pay, longevity pay, and city service incentive pay.

The bill would limit the number of years a member could participate in a deferred retirement option plan (DROP) to 10 years. Currently there is no limit to DROP participation. The bill would prohibit an active DROP participant from receiving a distribution from the DROP account. The bill would remove authority allowing active DROP accounts to earn interest. DROP accounts would be distributed as an annuity over the life expectancy of the member. Current law allows DROP participants to receive a single lump sum distribution.

The bill would allow the Pension to make cost of living adjustments (COLA). Currently Tier 1 receives a 4 percent simple COLA every year. Tiers 2 and 3 receive an ad hoc COLA not to exceed 4 percent simple COLA on the base benefit. The bill would adjust Tier 1 to match Tiers 2 and 3 and make the COLA dependent on reaching certain financial benchmarks. The benchmark, the market value of assets divided by the Pensions actuarial accrued liabilities, must be greater than or equal to .70. The bill would prohibit DROP accounts from receiving a COLA.

The bill would allow retiree DROP participants to accrue interest on the accounts equal to the 10-year note issued by the United States Department of the Treasury or other federal treasury note.

The bill would set the employee contribution rates to 13.5 percent for active members. Under current law, Tier 1 employees contribute 6.5 percent and Tier 2 employees contribute 8.5 percent.

The bill would set the contribution rate for the City of Dallas to 34.5 percent of computation pay. Under current law, the City of Dallas contribution rate is set based on the employee contribution rate and capped at 28.5 percent of total salaries and wages.

According to an actuarial analysis provided by the City of Dallas, the bill would require the City of Dallas to contribute an additional $11.0 million each year. Beginning on or after September 1, 2019 the $11.0 million contributions would cease if the unfunded actuarial accrued liability (UAAL) is not projected to be paid off within 35 years while including the additional $11.0 million.

The bill would create a Class B misdemeanor if an employee or other agent acting on behalf of the pension system knowingly provides false information to the Pension Review Board.

The bill would repeal Section 3.01(c), Section 4.01(b), Section 4.02 (f), Section, 606(i) and (s), Section 6.10B(h), Section 6.14(i) and (k), and Part 7 of Article 6243a-1, Revised Statutes.

Local Government Impact

According to an actuarial analysis provided by the City of Dallas, the current pension system will become insolvent within the next 10 years.

The Pension currently has an unfunded liability of $3,696.0 million. Under the provisions of the bill, the unfunded liability would decline to $2,280.0 million. The funded ratio would increase from 36.8 percent to 48.6 percent.

According to the actuarial analysis, implementing provisions of the bill would result in the UAAL being paid off in 58 years. The actuarial analysis assumes that the additional $11.0 million contribution will end September 2019. However, if the city contributes the additional $11.0 million every year, regardless of the projected years to full funding as of January 1, 2019, the UAAL is projected to be paid off in 48 years.

The City of Dallas estimates the bill would require the city to spend an additional $22.8 million in fiscal year 2018 and an estimated $161.9 million over five years.

A Class B misdemeanor is punishable by a fine of not more than $2,000, confinement in jail for a term not to exceed 180 days, or both. Costs associated with enforcement, prosecution and confinement could likely be absorbed within existing resources. Revenue gain from fines imposed and collected is not anticipated to have a significant fiscal implication.

Source Agencies: 338 Pension Review Board

LBB Staff: UP, JGA, AG, GG, BM, BRi