

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 10, 2019

TO: Honorable Jim Murphy, Chair, House Committee on Pensions, Investments & Financial Services

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **HB3373** by Middleton (Relating to the police pension fund in certain municipalities.), **As Introduced**

<p>No significant fiscal implication to the State is anticipated.</p>
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The bill would amend the Acts of the 75th Legislature, 1997 (Acts), to modify the police pension fund for the City of Galveston.

The bill would amend Sections 2.02 and 2.03 of Acts to increase the number of trustees from seven to eight, to modify the composition of the board of trustees, to set the qualifications of a trustee, and to modify the election procedure for trustees.

The bill would add Section 2.10 to Acts to require the board of trustees to review benefit adjustments and actuarial assumptions, to measure the performance of the portfolio of the fund, and to review the asset allocation of the fund.

The bill would add Section 2.11 to Acts to prohibit a new monetary benefit payable by the pension fund or the increase in the amount of a monetary benefit if that action would increase the unfunded actuarial liabilities of the pension fund beyond 25 years.

The bill would amend Section 3.01 of Acts to indicate the intent of the Legislature that the pension fund benefit plan be construed and administered as a qualified plan under Section 401(a), Internal Revenue Code of 1986.

The bill would amend Section 6.01 of Acts to increase the member contribution to 13 percent of a member's monthly wages. This represents an increase from the statutory range of one to 10 percent; however, it would conform with the existing level of member contribution as determined by the Board in March 2008. The board would be authorized to reduce the member contribution by two percent if the amortization period of the unfunded actuarial accrued liability of the pension fund, as determined by an actuarial valuation, does not exceed 20 years and, after taking into account the impact of the reduction, the Pension Review Board (PRB) certifies that the fund's unfunded actuarial accrued liability amortization period does not exceed 25 years. The board is prohibited from reducing the member contribution below 8.5 percent or above the level contributed by the municipality.

The bill would amend Section 6.02 of Acts to set the contribution of the municipality to 19 percent

of payroll and compensation for each member but allows this contribution rate to be reduced with the approval of six trustees.

The bill would add Section 6.06 to Acts to prohibit contributions by members or the municipality from being altered under a collective bargaining agreement.

The bill would amend Section 11.01 to modify certain voting thresholds to reflect a larger board and to prohibit any modification of a benefit or contribution rate that would result in an increase to the fund's unfunded actuarial accrued liability if in the previous eight fiscal years the actual rate of return of the pension fund's assets did not equal or exceed the actuarially assumed rate of return.

The bill would take effect September 1, 2019.

Local Government Impact

According to the City of Galveston, the current contribution by the city is 14.83 percent. The increase in municipal contribution in the bill would result in an anticipated increase in cost to the municipality of \$628,919 in fiscal year 2020 and beyond. This would represent a 0.4 percent increase in the overall budget of the city and a 3.0 percent increase in the budget of the police department.

Under current PRB Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but not to exceed 30 years, with 10 to 25 years being the preferable target range. According to this criteria, the Plan is currently actuarially unsound. The effect of this bill on unfunded actuarial accrued liability has not been determined at this time.

Source Agencies:

LBB Staff: WP, CMa, SD, GP