

# SENATE AMENDMENTS

## 2<sup>nd</sup> Printing

By: Bonnen, Capriglione, Burns, et al.

H.J.R. No. 2

### A JOINT RESOLUTION

1 proposing a constitutional amendment limiting the contribution  
2 rate of the members of the Teacher Retirement System of Texas,  
3 authorizing the legislature to provide cost-of-living adjustments  
4 or other benefit enhancements to eligible annuitants of the system,  
5 and providing a one-time transfer of funds for benefit enhancements  
6 and for contributions and actuarially determined payments to  
7 eliminate the unfunded actuarial liabilities of the system.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

9 SECTION 1. Section 67(b)(3), Article XVI, Texas  
10 Constitution, is amended to read as follows:

11 (3) The amount contributed by a person participating  
12 in the Employees Retirement System of Texas or the Teacher  
13 Retirement System of Texas shall be established by the legislature  
14 but may not be less than six percent of current compensation nor for  
15 a person participating in the Teacher Retirement System of Texas  
16 more than nine percent of current compensation. The amount  
17 contributed by the state may not be less than six percent nor more  
18 than 10 percent of the aggregate compensation paid to individuals  
19 participating in the system. In an emergency, as determined by the  
20 governor, the legislature may appropriate such additional sums as  
21 are actuarially determined to be required to fund benefits  
22 authorized by law.

23 SECTION 2. Article XVI, Texas Constitution, is amended by  
24 adding Section 67-a to read as follows:

1       Sec. 67-a. (a) Only as authorized by this section, the  
2 legislature by general law may provide one or more cost-of-living  
3 adjustments or supplemental payments as benefit enhancements to  
4 annuitants of the Teacher Retirement System of Texas who are  
5 eligible for the enhancements, as determined by that law.

6       (b) The legislature may provide a benefit enhancement as  
7 described by this section and, as necessary, direct the comptroller  
8 of public accounts to transfer funds to the Teacher Retirement  
9 System of Texas for the payment of the benefit enhancement only if:

10           (1) the retirement system is actuarially sound, as  
11 determined by general law; and

12           (2) except as provided by Subsection (c) of this  
13 section and subject to Subsection (d) of this section, the  
14 legislature appropriates money in an amount sufficient to fully pay  
15 for the benefit enhancement, as determined by the board of trustees  
16 of the retirement system.

17       (c) Subsection (b)(2) of this section does not apply to a  
18 continuing cost-of-living adjustment that is:

19           (1) authorized by general law; and

20           (2) payable only:

21                   (A) if the return on the investment of the assets  
22 of the Teacher Retirement System of Texas meets or exceeds a minimum  
23 threshold prescribed by general law; and

24                   (B) out of the return.

25       (d) In determining the amount that is sufficient to fully  
26 pay for the benefit enhancement under Subsection (b)(2) of this  
27 section, the board of trustees of the Teacher Retirement System of

1 Texas shall reduce that amount by the amount by which the actuarial  
2 value of the system's assets exceeds the actuarial accrued  
3 liability of the system.

4 SECTION 3. The following temporary provision is added to  
5 the Texas Constitution:

6 TEMPORARY PROVISION. (a) This temporary provision applies  
7 to the constitutional amendment proposed by the 88th Legislature,  
8 Regular Session, 2023, authorizing the legislature to provide  
9 cost-of-living adjustments or other benefit enhancements to  
10 eligible annuitants of the Teacher Retirement System of Texas and  
11 providing a one-time transfer of funds for contributions,  
12 actuarially determined payments, and benefit enhancements.

13 (b) As soon as practicable after the effective date of the  
14 amendment to which this temporary provision applies, the  
15 comptroller of public accounts shall transfer \$1.9 billion from the  
16 general revenue fund to the trust fund of the Teacher Retirement  
17 System of Texas. Money transferred to the trust fund under this  
18 temporary provision may be spent by the system only for the purposes  
19 of providing contributions, actuarially determined payments, and  
20 benefit enhancements to the system's annuitants, as provided by  
21 general law. The transfer made under this temporary provision is  
22 not an appropriation of state tax revenues for the purposes of  
23 Section 22, Article VIII, of this constitution.

24 (c) This temporary provision expires January 1, 2056.

25 SECTION 4. This proposed constitutional amendment shall be  
26 submitted to the voters at an election to be held November 7, 2023.  
27 The ballot shall be printed to permit voting for or against the

H.J.R. No. 2

1 proposition: "The constitutional amendment authorizing the  
2 legislature to provide cost-of-living adjustments or other benefit  
3 enhancements to eligible annuitants of the Teacher Retirement  
4 System of Texas and providing a one-time transfer of \$1.9 billion to  
5 the retirement system for benefit enhancements and for  
6 contributions and actuarially determined payments to eliminate the  
7 unfunded accrued actuarial liabilities of the retirement system."

ADOPTED  
MAY 21 2023

By: Huffman

Substitute the following for \_\_\_J.R. No. \_\_\_\_\_:

By: Jean Huffman

*Lacey Davis*  
Secretary of the Senate  
H. J.R. No. 2  
C.S. \_\_\_J.R. No. \_\_\_\_\_

A JOINT RESOLUTION

1 proposing a constitutional amendment limiting the authority of the  
2 legislature to provide cost-of-living adjustments or other benefit  
3 enhancements to certain annuitants of the Teacher Retirement System  
4 of Texas and providing a one-time transfer of funds to the  
5 retirement system to provide a cost-of-living adjustment.

6 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

7 SECTION 1. Article XVI, Texas Constitution, is amended by  
8 adding Section 67-a to read as follows:

9 Sec. 67-a. (a) Only as authorized by this section, the  
10 legislature by general law may provide one or more cost-of-living  
11 adjustments or supplemental payments as benefit enhancements to  
12 annuitants of the Teacher Retirement System of Texas who are  
13 eligible for the enhancements, as determined by that law.

14 (b) The legislature may provide a benefit enhancement as  
15 described by this section and, as necessary, direct the comptroller  
16 of public accounts to transfer funds to the Teacher Retirement  
17 System of Texas for the payment of the benefit enhancement only if:

18 (1) the retirement system is actuarially sound, as  
19 determined by general law; and

20 (2) subject to Subsection (c) of this section, the  
21 legislature appropriates money in an amount sufficient to ensure  
22 that providing the benefit enhancement does not increase the  
23 unfunded actuarial liabilities of the retirement system, as  
24 determined by the board of trustees of the retirement system.

1       (c) In determining the amount that is sufficient to ensure  
2 that providing a benefit enhancement does not increase the unfunded  
3 actuarial liabilities of the Teacher Retirement System of Texas  
4 under Subsection (b)(2) of this section, the board of trustees of  
5 the retirement system shall reduce that amount by the amount by  
6 which the actuarial value of the retirement system's assets exceeds  
7 the actuarial accrued liability of the retirement system.

8       SECTION 2. The following temporary provision is added to  
9 the Texas Constitution:

10       TEMPORARY PROVISION. (a) This temporary provision applies  
11 to the constitutional amendment proposed by the 88th Legislature,  
12 Regular Session, 2023, limiting the authority of the legislature to  
13 provide cost-of-living adjustments or other benefit enhancements  
14 to certain annuitants of the Teacher Retirement System of Texas and  
15 providing a one-time transfer of funds to the retirement system to  
16 provide a cost-of-living adjustment.

17       (b) As soon as practicable after the effective date of the  
18 amendment to which this temporary provision applies, the  
19 comptroller of public accounts shall transfer \$3.323 billion from  
20 the general revenue fund to an account in the trust fund of the  
21 Teacher Retirement System of Texas established for that purpose.  
22 Money transferred to an account under this temporary provision may  
23 be spent by the retirement system only for the purpose of providing  
24 a cost-of-living adjustment of not less than two percent and not  
25 more than four percent of each eligible annuitant's annuity, as  
26 provided by general law. The transfer made under this temporary  
27 provision is not:

1           (1) an appropriation of state tax revenues for the  
2 purposes of Section 22, Article VIII, of this constitution; or

3           (2) a contribution by the state to the retirement  
4 system under Section 67(b)(3), Article XVI, of this constitution,  
5 or any other law.

6           (c) This temporary provision expires on the earlier of:

7           (1) the date all money transferred to an account in the  
8 trust fund of the Teacher Retirement System of Texas under this  
9 temporary provision has been expended; or

10          (2) the date on which:

11           (A) no annuitants who are eligible for the  
12 cost-of-living adjustment authorized under this temporary  
13 provision remain; and

14           (B) any unexpended balance has been transferred  
15 to the general revenue fund under Subsection (d) of this temporary  
16 provision.

17          (d) If no annuitants who are eligible for the cost-of-living  
18 adjustment authorized under this temporary provision remain, the  
19 board of trustees of the Teacher Retirement System of Texas shall  
20 notify the comptroller and the comptroller shall transfer any  
21 unexpended money to the general revenue fund.

22          SECTION 3. This proposed constitutional amendment shall be  
23 submitted to the voters at an election to be held November 7, 2023.  
24 The ballot shall be printed to permit voting for or against the  
25 proposition: "The constitutional amendment limiting the authority  
26 of the legislature to provide cost-of-living adjustments or other  
27 benefit enhancements to certain annuitants of the Teacher

1 Retirement System of Texas and providing a one-time transfer of  
2 funds to the retirement system to provide a cost-of-living  
3 adjustment."



ADOPTED

MAY 21 2023

Lacey Law  
Secretary of the Senate

BY: Joan Huffman

FLOOR AMENDMENT NO. 1

1 Amend C.S.H.J.R. No. 2 (senate committee printing) by  
2 striking all below the resolving clause and substituting the  
3 following:

4 SECTION 1. Article XVI, Texas Constitution, is amended by  
5 adding Section 67-a to read as follows:

6 Sec. 67-a. (a) As the Teacher Retirement System of Texas is  
7 actuarially sound according to an actuarial valuation update  
8 performed in February 2023, the 88th Legislature, Regular Session,  
9 2023:

10 (1) by general law may provide a cost-of-living  
11 adjustment to annuitants of the Teacher Retirement System of Texas  
12 who are eligible for the adjustment as determined by that general  
13 law; and

14 (2) may appropriate an amount of money from the general  
15 revenue fund to the comptroller of public accounts for deposit to  
16 the trust fund of the Teacher Retirement System of Texas to pay  
17 the adjustment authorized by Subdivision (1) of this subsection.

18 (b) For purposes of Section 22, Article VIII, of this  
19 constitution, an appropriation of state tax revenues made by the  
20 88th Legislature, Regular Session, 2023, for the purpose described  
21 by Subsection (a)(1) of this section is treated as if it were an  
22 appropriation of revenues dedicated by this constitution.

23 (c) This section expires September 1, 2025.

24 SECTION 2. This proposed constitutional amendment shall be  
25 submitted to the voters at an election to be held November 7, 2023.

1 The ballot shall be printed to permit voting for or against the  
2 proposition: "The constitutional amendment authorizing the 88th  
3 Legislature to provide a cost-of-living adjustment to certain  
4 annuitants of the Teacher Retirement System of Texas."

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION**

**May 23, 2023**

**TO:** Honorable Dade Phelan, Speaker of the House, House of Representatives

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HJR2** by Bonnen (Proposing a constitutional amendment limiting the authority of the legislature to provide cost-of-living adjustments or other benefit enhancements to certain annuitants of the Teacher Retirement System of Texas and providing a one-time transfer of funds to the retirement system to provide a cost-of-living adjustment.), **As Passed 2nd House**

**No significant fiscal implication to the State is anticipated**, other than the cost of publication.

The cost to the state for publication of the resolution is \$204,406.

This resolution would propose an amendment to add Section 67-a, Article XVI, of the Texas Constitution that would authorize the Legislature to provide benefit enhancements to eligible annuitants of the Teacher Retirement System (TRS).

According to the Pension Review Board, TRS is considered actuarially sound, with an amortization period of 27 years as of August 31, 2023. Government Code, Section 821.006 defines actuarial soundness, for the purposes of making modifications to benefit and contribution levels, as less than 31 years. The benefit enhancement would take place only if the fund is considered actuarially sound.

The fiscal impact of the cost of living adjustment allowed under the joint resolution is shown in the fiscal note for CSSB 10, as passed the 2nd house. An appropriation for this purpose made by the Eighty-eighth Legislature, Regular Session, would be treated as if it were an appropriation of revenues dedicated by the constitution. The section of the constitution established by the joint resolution would expire September 1, 2025.

The proposed amendment would be submitted to voters at an election to be held November 7, 2023.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 323 Teacher Retirement System

**LBB Staff:** JMc, MOc, ASA, MMo, KK

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION**

**May 19, 2023**

**TO:** Honorable Joan Huffman, Chair, Senate Committee on Finance

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HJR2** by Bonnen (proposing a constitutional amendment limiting the authority of the legislature to provide cost-of-living adjustments or other benefit enhancements to certain annuitants of the Teacher Retirement System of Texas and providing a one-time transfer of funds to the retirement system to provide a cost-of-living adjustment.), **Committee Report 2nd House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HJR2, Committee Report 2nd House, Substituted : a negative impact of (\$3,323,204,406) through the biennium ending August 31, 2025.

The bill provides the legal basis for the transfer of funds to implement the provisions of the bill.

**General Revenue-Related Funds, Five- Year Impact:**

<i>Fiscal Year</i>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2024	(\$3,323,204,406)
2025	\$0
2026	\$0
2027	\$0
2028	\$0

**All Funds, Five-Year Impact:**

<i>Fiscal Year</i>	<b>Probable Revenue Gain/(Loss) from General Revenue Fund 1</b>	<b>Probable Savings/(Cost) from General Revenue Fund 1</b>
2024	(\$3,323,000,000)	(\$204,406)
2025	\$0	\$0
2026	\$0	\$0
2027	\$0	\$0
2028	\$0	\$0

**Fiscal Analysis**

This resolution would propose an amendment to add Section 67-a, Article XVI, of the Texas Constitution that would limit the Legislature's ability to provide benefit enhancements to eligible annuitants of the Teacher Retirement System (TRS). The benefit enhancements would be contingent on the retirement system being considered actuarially sound and an appropriation of funds sufficient to ensure the benefit enhancement does not increase the unfunded actuarial liabilities of the retirement system.

## **Methodology**

According to the Pension Review Board, TRS is considered actuarially sound, with an amortization period of 27 years as of August 31, 2023. Government Code, Section 821.006 defines actuarial soundness, for the purposes of making modifications to benefit and contribution levels, as less than 31 years. The benefit enhancement would take place only if the fund is considered actuarially sound.

The approval of the proposed amendment to Section 67-a of Article XVI by voters would result in a revenue loss to General Revenue of \$3.323 billion for the purposes of providing a cost-of-living adjustment of no less than 2.0 percent and no more than 4.0 percent. The resolution is self-enabling and would result in a transfer of funds from the Comptroller of Public Accounts (CPA) to TRS. These funds would be transferred to TRS in the 2024 fiscal year after the amendment takes effect and would not be considered an appropriation of state tax revenues. The transfer would be in addition to any appropriation made in the 2024-25 General Appropriations Act.

The cost to the state for publication of the resolution is \$204,406. The proposed amendment would be submitted to voters at an election to be held November 7, 2023.

## **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 323 Teacher Retirement System

**LBB Staff:** JMc, KK, ASA, MMo, MOc

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION**

**May 17, 2023**

**TO:** Honorable Joan Huffman, Chair, Senate Committee on Finance

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HJR2** by Bonnen (Proposing a constitutional amendment limiting the contribution rate of the members of the Teacher Retirement System of Texas, authorizing the legislature to provide cost-of-living adjustments or other benefit enhancements to eligible annuitants of the system, and providing a one-time transfer of funds for benefit enhancements and for contributions and actuarially determined payments to eliminate the unfunded actuarial liabilities of the system.), **As Engrossed**

**No significant fiscal implication to the State is anticipated**, other than the cost of publication.

The cost to the state for publication of the resolution is \$204,406.

This resolution would propose an amendment to add Section 67-a, Article XVI, of the Texas Constitution that would authorize the Legislature to provide benefit enhancements to eligible annuitants of the Teacher Retirement System (TRS). The benefit enhancements would be contingent on an accompanying appropriation of funds sufficient to fully pay for the benefit enhancement. Any ongoing benefit enhancement provided for by legislation relating to an ongoing benefit enhancement is contingent on investment returns of the TRS Pension Trust Fund, not appropriations, and must be paid for out of those returns.

According to the Pension Review Board, TRS is considered actuarially sound, with an amortization period of 27 years as of August 31, 2023. Government Code, Section 821.006 defines actuarial soundness, for the purposes of making modifications to benefit and contribution levels, as less than 31 years. The benefit enhancement would take place only if the fund is considered actuarially sound.

The approval of the proposed amendment to Section 67-a of Article XVI by voters would result in a cost to the state of \$1.9 billion for the purposes of providing contributions, actuarially determined payments, and benefit enhancements. Although the resolution is self-enabling, the fiscal impact is shown in the fiscal note for CSSB 10, as passed the 2nd house. These funds would be transferred to TRS in the 2024 fiscal year after the amendment takes effect and would not be considered an appropriation of state tax revenues.

The proposed amendment would be submitted to voters at an election to be held November 7, 2023.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 323 Teacher Retirement System

**LBB Staff:** JMc, KK, ASA, MMo, MOc

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION**

**March 31, 2023**

**TO:** Honorable Giovanni Capriglione, Chair, House Committee on Pensions, Investments & Financial Services

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HJR2** by Bonnen (proposing a constitutional amendment authorizing the legislature to provide cost-of-living adjustments or other benefit enhancements to eligible annuitants of the Teacher Retirement System of Texas and providing a one-time transfer of funds for contributions, actuarially determined payments, and benefit enhancements.), **Committee Report 1st House, Substituted**

**No significant fiscal implication to the State is anticipated, other than the cost of publication.**

The cost to the state for publication of the resolution is \$204,406.

This resolution would propose an amendment to Section 67-a, Article XVI, of the Texas Constitution that would authorize the Legislature to provide a onetime or ongoing benefit enhancements to eligible annuitants of the Teacher Retirement System (TRS). The benefit enhancement would be contingent on an accompanying appropriation of funds sufficient to fully pay for the benefit enhancement.

According to the Pension Review Board, TRS is considered actuarially sound, with an amortization period of 27 years as of August 31, 2023. Government Code, Section 821.006 defines actuarial soundness, for the purposes of making modifications to benefit and contribution levels, as less than 31 years. The benefit enhancement would take place only if the fund is considered actuarially sound.

The approval of the proposed amendment to Section 67-a of Article XVI by voters would result in a cost to the state of \$3.45 billion for the purposes of providing the benefit enhancements. Although the resolution is self-enabling, the fiscal impact is shown in the fiscal note for HB 600. These funds would be transferred to TRS in the 2024 fiscal year after the amendment takes effect and would not be considered an appropriation of state tax revenues.

The proposed amendment would be submitted to voters at an election to be held November 7, 2023.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 323 Teacher Retirement System

**LBB Staff:** JMc, MOc, ASA, MMo

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION**

**March 21, 2023**

**TO:** Honorable Giovanni Capriglione, Chair, House Committee on Pensions, Investments & Financial Services

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HJR2** by Bonnen (Proposing a constitutional amendment authorizing the legislature to provide one-time or ongoing benefit enhancements to eligible annuitants of the Teacher Retirement System of Texas, including a one-time transfer of funds for that purpose.), **As Introduced**

**No significant fiscal implication to the State is anticipated**, other than the cost of publication.

The cost to the state for publication of the resolution is \$204,406.

This resolution would propose an amendment to Section 51, Article III, of the Texas Constitution, to authorize the legislature to provide a onetime or ongoing benefit enhancements to eligible annuitants of the Teacher Retirement System (TRS). The benefit enhancement would be contingent on an accompanying appropriation of funds sufficient to fully pay for the benefit enhancement.

According to the Pension Review Board, TRS is considered actuarially sound, with an amortization period of 27 years as of August 31, 2023. Government Code, Section 821.006 defines actuarial soundness, for the purposes of making modifications to benefit and contribution levels, as less than 31 years. The benefit enhancement would take place only if the fund is considered actuarially sound.

The approval of the proposed amendment to Section 51 of Article III by voters would result in a cost to the state of \$3.45 billion for the purposes of providing the benefit enhancements. Although the resolution is self-enabling, the fiscal impact is shown in the fiscal note for HB 600. These funds would be transferred to TRS in the 2024 fiscal year after the amendment takes effect and would not be considered an appropriation of state tax revenues.

The proposed amendment would be submitted to voters at an election to be held November 7, 2023.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 323 Teacher Retirement System

**LBB Staff:** JMc, MOc, ASA, MMo



**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**ACTUARIAL IMPACT STATEMENT**

**88TH LEGISLATIVE REGULAR SESSION**

**May 19, 2023**

**TO:** Honorable Joan Huffman, Chair, Senate Committee on Finance

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HJR2** by Bonnen (proposing a constitutional amendment limiting the authority of the legislature to provide cost-of-living adjustments or other benefit enhancements to certain annuitants of the Teacher Retirement System of Texas and providing a one-time transfer of funds to the retirement system to provide a cost-of-living adjustment.), **Committee Report 2nd House, Substituted**

*Based on the February 28, 2023, Actuarial Valuation projected forward to August 31, 2023*

<b>Teacher Retirement System of Texas (TRS)</b>	<b>Current</b>	<b>Proposed</b>	<b>Difference</b>
Employer Contribution (% of payroll)	8.25%	9.00%	0.75%
Employee Contribution (% of payroll)	8.25%	9.00%	0.75%
Total Contribution (% of payroll)	16.50%	18.00%	1.50%
Normal Cost (% of payroll)	12.23%	13.04%	0.81%
Unfunded Actuarial Accrued Liability (billions)	\$54.4	\$71.9	\$17.5
Funded Ratio	78.7%	73.6%	(5.1)%
Amortization Period (years)	27	31	4

**ACTUARIAL EFFECTS**

The resolution proposes an amendment to the Texas Constitution that would establish a long-term funding framework for benefit enhancements, including the cost-of-living adjustments authorized by Senate Bill 10 (SB 10).

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) over as brief a period as possible, but not to exceed 30 years, with 10 to 25 years being the preferable target range. TRS statute defines actuarial soundness, for purposes of making modifications to benefit and contribution levels, as less than 31 years. TRS is currently actuarially sound, with an amortization period of 27 years, and would remain sound assuming passage of the constitutional amendment outline in House Joint Resolution 2 (HJR 2) in conjunction with SB 10.

**SYNOPSIS OF PROVISIONS**

The resolution, subject to approval by Texas voters, would amend Article XVI of the Texas Constitution by adding Section 67-a. The resolution would allow the legislature to provide benefit enhancements to eligible annuitants of TRS as long as the retirement system is actuarially sound and the legislature appropriates money in an amount sufficient to ensure that the UAAL of TRS does not increase. If it is determined that the amount granted by the legislature is not sufficient, TRS would reduce the amount of the benefit enhancement by the amount needed so that the UAAL would not increase.

The resolution would also add a temporary provision to transfer \$3.323 billion from the general revenue fund to a separate account in the trust fund of TRS for the purpose of providing the benefit enhancements as provided by SB 10. This temporary provision would expire the earlier of the date all the money transferred into an account in the trust fund of TRS has been expended, or the date on which no annuitants who are eligible for the

COLA remain and the remainder of the funds are transferred to the general revenue fund.

The amendment would be submitted to voters for the November 7, 2023, election.

## **FINDINGS AND CONCLUSIONS**

The actuarial review states HJR 2 would provide \$3.323 billion towards the cost of benefit enhancements outlined in SB 10.

The review further notes additional changes outlined in SB 10 are not accounted for in this joint resolution. These ongoing changes include additional employee and employer contributions of 0.75 percent of payroll for each year going forward, and an actuarially determined legacy payment be made by the state, estimated to be \$630 million for each year through 2054.

The gain sharing COLA in SB 10 would apply to most annuitants in payment beginning September 2028. The \$5,000 supplemental payment in SB 10 would apply to most annuitants in payment aged 70 and older at the time of payment. The increases in member contributions in SB 10 would apply to all active members.

## **METHODOLOGY AND STANDARDS**

The TRS analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the TRS actuarial valuations for February 28, 2023, projected forward to August 31, 2023.

According to the PRB actuary, the actuarial assumptions, methods, and procedures are reasonable for the purpose of this analysis. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of TRS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

## **SOURCES**

Actuarial Analysis by Joseph P. Newton, FSA, and Dana Woolfrey, FSA, EA, MAAA, Gabriel, Roeder, Smith & Company, May 19, 2023.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, May 19, 2023.

## **GLOSSARY**

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a period as possible, but not to exceed 30 years, with 10-25 years being the preferable target range.

Actuarial Cost Method - An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

**Source** 338 Pension Review Board  
**Agencies:**

**LBB Staff:** JMc, MMo, SD

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**ACTUARIAL IMPACT STATEMENT**

**88TH LEGISLATIVE REGULAR SESSION**

**May 17, 2023**

**TO:** Honorable Joan Huffman, Chair, Senate Committee on Finance

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HJR2** by Bonnen (Proposing a constitutional amendment limiting the contribution rate of the members of the Teacher Retirement System of Texas, authorizing the legislature to provide cost-of-living adjustments or other benefit enhancements to eligible annuitants of the system, and providing a one-time transfer of funds for benefit enhancements and for contributions and actuarially determined payments to eliminate the unfunded actuarial liabilities of the system.), **As Engrossed**

**COST ESTIMATE**

*Based on the February 28, 2023, Actuarial Valuation projected forward to August 31, 2023*

<b>Teacher Retirement System of Texas (TRS)</b>	<b>Current</b>	<b>Proposed</b>	<b>Difference</b>
Employer Contribution (% of payroll)	8.25%	9.00%	0.75%
Employee Contribution (% of payroll)	8.25%	9.00%	0.75%
Total Contribution (% of payroll)	16.50%	18.00%	1.50%
Normal Cost (% of payroll)	12.23%	13.04%	0.81%
Unfunded Actuarial Accrued Liability (billions)	\$54.4	\$71.9	\$17.5
Funded Ratio	78.7%	73.6%	(5.1)%
Amortization Period (years)	27	31	4

**ACTUARIAL EFFECTS**

The resolution proposes an amendment to the Texas Constitution that would establish a long-term funding framework for benefit enhancements, including the cost-of-living adjustments authorized by SB 10.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) over as brief a period as possible, but not to exceed 30 years, with 10 to 25 years being the preferable target range. TRS statute defines actuarial soundness, for purposes of making modifications to benefit and contribution levels, as less than 31 years. TRS is currently actuarially sound, with an amortization period of 27 years, and would remain sound assuming passage of the constitutional amendment outline in HJR 2 in conjunction with SB 10.

**SYNOPSIS OF PROVISIONS**

The resolution, subject to approval by Texas voters, would amend Article XVI of the Texas Constitution by amending Section 67(b)(3) and adding Section 67-a. The resolution would limit employee contributions for TRS members to a maximum of nine percent of compensation. It would also allow the legislature to provide one or more cost-of-living adjustments or supplemental payments as benefit enhancements to eligible annuitants of TRS as long as the retirement system is actuarially sound. The benefits could not be applied to TRS without an accompanying appropriation of the funds sufficient to fully pay for the benefit enhancement.

The resolution would also add a temporary provision to transfer \$1.9 billion from the general revenue fund to

TRS for the 2024-25 biennium to provide the benefit and funding provisions as provided by SB 10. This temporary provision would expire on January 1, 2056.

The amendment would be submitted to voters for the November 7, 2023, election.

## **FINDINGS AND CONCLUSIONS**

The actuarial review states HJR 2 as engrossed would provide \$1.9 billion towards the cost of benefit enhancements outlined in SB 10 as passed by the House.

The review further notes additional changes outlined in SB 10 that will continue to apply after the fiscal year 2024-2025 biennium but are not accounted for in this joint resolution. These ongoing changes include additional employee and employer contributions of 0.75 percent of payroll for each year going forward, and an actuarially determined legacy payment be made by the state, estimated to be \$630 million for each year through 2054.

The gain sharing COLA in SB 10 would apply to most annuitants in payment beginning September 2028. The \$5,000 supplemental payment in SB 10 would apply to most annuitants in payment aged 70 and older at the time of payment. The increases in member contributions in SB 10 would apply to all active members.

## **METHODOLOGY AND STANDARDS**

The TRS analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the TRS actuarial valuations for February 28, 2023, projected forward to August 31, 2023.

According to the PRB actuary, the actuarial assumptions, methods, and procedures are reasonable for the purpose of this analysis. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of TRS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

## **SOURCES**

Actuarial Analysis by Joseph P. Newton, FSA, and Dana Woolfrey, FSA, EA, MAAA, Gabriel, Roeder, Smith & Company, May 4, 2023.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, May 4, 2023.

## **GLOSSARY**

Actuarial Accrued Liability (AAL) - The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a period as possible, but not to exceed 30 years, with 10-25 years being the preferable target range.

Actuarial Cost Method - An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

**Source** 338 Pension Review Board  
**Agencies:**

**LBB Staff:** JMc, KK, ASA, MMo

**LEGISLATIVE BUDGET BOARD**

Austin, Texas

**ACTUARIAL IMPACT STATEMENT**

**88TH LEGISLATIVE REGULAR SESSION**

**March 31, 2023**

**TO:** Honorable Giovanni Capriglione, Chair, House Committee on Pensions, Investments & Financial Services

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HJR2** by Bonnen (proposing a constitutional amendment authorizing the legislature to provide cost-of-living adjustments or other benefit enhancements to eligible annuitants of the Teacher Retirement System of Texas and providing a one-time transfer of funds for contributions, actuarially determined payments, and benefit enhancements.), **Committee Report 1st House, Substituted**

**COST ESTIMATE**

*Based on the February 28, 2023, Actuarial Valuation projected forward to August 31, 2023.*

<b>Teacher Retirement System of Texas (TRS)</b>	<b>Current</b>	<b>Proposed</b>	<b>Difference</b>
Employer Contribution	8.25%	9.00%	0.75%
Employee Contribution	8.25%	9.00%	0.75%
Total Contribution	16.50%	18.00%	1.50%
Normal Cost (% of payroll)	12.23%	13.04%	0.81%
Unfunded Actuarial Accrued Liability (billions)	\$54.4	\$72.1	\$17.7
Funded Ratio	78.7%	73.6%	-5.1%
Amortization Period (years)	27	31	4

**ACTUARIAL EFFECTS**

The resolution proposes an amendment to the Texas Constitution that would establish a long-term funding framework for benefit enhancements, including the cost-of-living adjustments authorized by Committee Substitute for House Bill (CSHB) 600.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) over as brief a period as possible, but not to exceed 30 years, with 10 to 25 years being the preferable target range. Teacher Retirement System (TRS) statute defines actuarial soundness, for purposes of making modifications to benefit and contribution levels, as no more than 31 years. TRS is currently actuarially sound, with an amortization period of 27 years.

**SYNOPSIS OF PROVISIONS**

The resolution, subject to approval by Texas voters, would amend Article XVI of the Texas Constitution by adding Section 67-a. It would allow the legislature to provide one or more cost-of-living adjustments or supplemental payments as benefit enhancements to eligible annuitants of TRS as long as the retirement system is actuarially sound. The benefits could not be applied to TRS without an accompanying appropriation of the funds that would be determined to be sufficient to fully pay for the benefit enhancement.

The resolution would also add a temporary provision to transfer \$3.45 billion from the General Revenue fund to TRS for the purpose of providing onetime contributions, actuarially determined payments, and benefit enhancements as provided by CSHB 600 enabling legislation. This temporary provision would expire on January 1, 2056.

The amendment would be submitted to voters for the November 7, 2023 election.

## **FINDINGS AND CONCLUSIONS**

The actuarial review states the changes to the contributions of TRS would include \$3.45 billion for fiscal years 2024-2025 as outlined in the CSHB 600 actuarial analysis. This total consists of a \$1.689 billion one-time contribution, \$0.5 billion for additional state contributions as a percent of payroll, and \$1.26 billion in legacy payments. These amounts have not been verified by the PRB.

The review further notes additional changes outlined in CSHB 600 that will continue to apply after the 2024-2025 biennium but are not accounted for in this joint resolution. These ongoing changes include additional employee and employer contributions of 0.75 percent of payroll for each year going forward, and an actuarially determined legacy payment be made by the state, estimated to be \$630 million for each year through 2054.

The gain sharing COLA in CSHB 600 would apply to most annuitants in payment beginning September 2028. The \$5,000 supplemental payment in CSHB 600 would apply to most annuitants in payment aged 70 and older at the time of payment. The increases in member contributions in CSHB 600 would apply to all active members.

## **METHODOLOGY AND STANDARDS**

The TRS analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the TRS actuarial valuations for February 28, 2023, projected forward to August 31, 2023.

According to the PRB actuary, the actuarial assumptions, methods, and procedures are reasonable for the purpose of this analysis. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of TRS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

## **SOURCES**

Actuarial Analysis by Joseph P. Newton, FSA, and Dana Woolfrey, FSA, EA, MAAA, Gabriel, Roeder, Smith & Company, March 30, 2023.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, March 31, 2023.

## **GLOSSARY**

Actuarial Accrued Liability (AAL) -The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

Amortization Payments - The portion of the total contribution used to reduce the unfunded actuarial accrued liability (UAAL).

Amortization Period - The specified length of time used when calculating the amortization payment portion of an actuarially determined contribution, or as the time it would theoretically take to fully fund the UAAL or fully recognize a surplus. The State Pension Review Board recommends that funding should be sufficient to cover the normal cost and to amortize the UAAL over as brief a period as possible, but not to exceed 30 years, with 10-25 years being the preferable target range.

Actuarial Cost Method -An actuarial cost method is a way to allocate pieces of a participant's total expected



benefit to each year of their working career. In other words, it is a technique to determine how much of the present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

**Source** 338 Pension Review Board

**Agencies:**

**LBB Staff:** JMc, MOc, ASA, MMo, JPO

LEGISLATIVE BUDGET BOARD

Austin, Texas

ACTUARIAL IMPACT STATEMENT

88TH LEGISLATIVE REGULAR SESSION

March 21, 2023

TO: Honorable Giovanni Capriglione, Chair, House Committee on Pensions, Investments & Financial Services

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HJR2** by Bonnen (Proposing a constitutional amendment authorizing the legislature to provide one-time or ongoing benefit enhancements to eligible annuitants of the Teacher Retirement System of Texas, including a one-time transfer of funds for that purpose.), **As Introduced**

**COST ESTIMATE**

*Based on the February 28, 2023, Actuarial Valuation projected forward to August 31, 2023*

Teacher Retirement System of Texas (TRS)	Current	Proposed	Difference
Employer Contribution	8.25%	9.00%	0.75%
Employee Contribution	8.25%	9.00%	0.75%
Total Contribution	16.50%	18.00%	1.50%
Normal Cost (% of payroll)	12.23%	13.04%	0.81%
Unfunded Actuarial Accrued Liability (billions)	\$54.4	\$72.1	\$17.7
Funded Ratio	78.7%	73.6%	-5.1%
Amortization Period (years)	27	31	4

**ACTUARIAL EFFECTS**

The resolution proposes an amendment to the Texas Constitution that would establish a long-term funding framework for benefit enhancements, including the cost-of-living adjustments (COLA) authorized by House Bill 600.

The actuarial review states under the current Pension Review Board (PRB) Pension Funding Guidelines, funding should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) over as brief a period as possible, but not to exceed 30 years, with 10 - 25 years being the preferable target range. TRS statute defines actuarial soundness, for purposes of making modifications to benefit and contribution levels, as no more than 31 years. TRS is currently actuarially sound, with an amortization period of 27 years. Under the resolution, TRS would remain sound, with an amortization period of 31 years, equal to the required threshold.

**SYNOPSIS OF PROVISIONS**

The resolution would amend Article III of the Texas Constitution by adding Section 51-h. It would allow the legislature to provide a one-time or ongoing benefit enhancement to eligible annuitants of TRS as long as the retirement system is actuarially sound. The benefits could not be applied to TRS without an accompanying appropriation of the funds that would be determined to be sufficient to fully pay for the benefit enhancement.

The resolution would also add a temporary provision to transfer \$3.45 billion from the general revenue fund to TRS for the two-year period beginning September 1, 2023, for the purpose of providing one-time contributions, legacy payments, and benefit enhancements as provided by House Bill 600 enabling legislation. These funds would be deemed to be available to TRS as of September 1, 2023, regardless of the date the comptroller actually transfers the funds. This temporary provision would expire on January 1, 2025. The amendment would be submitted to voters for the November 7, 2023, election.

## **FINDINGS AND CONCLUSIONS**

The actuarial review states the changes to the contributions of TRS would include \$3.45 billion for fiscal years 2024-2025 as outlined in the House Bill 600 actuarial analysis. This total consists of a \$1.689 billion one-time contribution, \$0.5 billion for additional state contributions as a percent of payroll, and \$1.26 billion in legacy payments. These amounts have not been verified by the PRB.

The review further notes additional changes outlined in House Bill 600 that will continue to apply after the fiscal year 2024-2025 biennium but which are not accounted for in this joint resolution. These ongoing changes include additional employee and employer contributions of 0.75 percent of payroll for each year going forward, and an actuarially determined legacy payment be made by the state, estimated to be \$630 million for each year through 2054.

The gain sharing COLA in House Bill 600 would apply to most annuitants in payment beginning September 2028. The \$5,000 supplemental payment in House Bill 600 would apply to most annuitants in payment aged 70 and older at the time of payment. The increases in member contributions in House Bill 600 would apply to all active members.

## **METHODOLOGY AND STANDARDS**

The TRS analysis relies on the participant data, financial information, benefit structure and actuarial assumptions and methods used in the TRS actuarial valuations for February 28, 2023, projected forward to August 31, 2023.

According to the PRB actuary, the actuarial assumptions, methods, and procedures are reasonable for the purpose of this analysis. All actuarial projections have a degree of uncertainty because they are based on the probability of occurrence of future contingent events. Accordingly, actual results will be different from the results contained in the analysis to the extent actual future experience varies from the experience implied by the assumptions. This analysis is based on the assumption that no other legislative changes affecting the funding or benefits of TRS will be adopted. It should be noted that when several proposals are adopted, the effect of each may be compounded, resulting in a cost that is greater (or less) than the sum of each proposal considered independently.

## **SOURCES**

Actuarial Analysis by Joseph P. Newton, FSA, and Dana Woolfrey, FSA, EA, MAAA, Gabriel, Roeder, Smith & Company, March 17, 2023.

Actuarial Review by David Fee, ASA, EA, Staff Actuary, Pension Review Board, March 18, 2023.

## **GLOSSARY**

Actuarial Accrued Liability (AAL) -The current value of benefits attributed to past years.

Actuarial Value of Assets (AVA) - The value of assets used for the actuarial valuation. The AVA can be either the market value (MVA) or a smoothed value of assets.

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Actuarial Cost Method -An actuarial cost method is a way to allocate pieces of a participant's total expected benefit to each year of their working career. In other words, it is a technique to determine how much of the

present value of future benefits (PVFB) to assign to past service (AAL) vs. future service (present value of future normal costs, or PVFNC).

Funded Ratio (FR) - The ratio of actuarial assets to the actuarial accrued liabilities.

Market Value of Assets (MVA) - The fair market value of the system's assets.

Normal Cost (NC) - Computed differently under different actuarial cost methods, the normal cost generally represents the current value of benefits attributed to the present year. The employer normal cost equals the total normal cost of the plan reduced by employee contributions.

Present Value of Future Benefits (PVFB) - The current value of all benefits expected to be paid from the plan to current plan participants.

Present Value of Future Normal Costs (PVFNC) - The current value of benefits attributed to the present year and all future years (includes the normal cost as the first year).

Unfunded Actuarial Accrued Liability (UAAL) - The difference between the actuarial accrued liability and the actuarial value of assets; therefore, the UAAL is the amount that is still owed to the fund for past obligations.

**Source** 338 Pension Review Board

**Agencies:**

**LBB Staff:** JMc, MOc, ASA, JPO