

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5769-01
Bill No.: Perfected HB 2044
Subject: Retirement - Local Government; Political Subdivisions
Type: Original
Date: February 21, 2018

Bill Summary: This proposal allows a metropolitan planning organization to be considered a political subdivision for the purposes of Missouri Local Government Employees' Retirement System.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Parks, Soils and Water Sales Tax Fund	\$0 to (\$402,789)	\$0 to (\$610,236)	\$0 to (\$625,492)
Total Estimated Net Effect on Other State Funds	\$0 to (\$402,789)	\$0 to (\$610,236)	\$0 to (\$625,492)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	(\$864,000)	(\$3,184,000)	(\$4,640,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Local Government Employees Retirement System** assume the proposal will have no fiscal impact on their organization.

Officials from the **Joint Committee on Public Retirement (JCPER)** assume the following:

The JCPER has reviewed the three House Amendments that were adopted to HB 2044 and offers the following response:

House Amendment 1 (PSRS): The JCPER's review of House Amendment 1 indicates that the amendment will not affect retirement plan benefits as defined in Section 105.660.

House Amendment 2 (Kansas City Public School Retirement System): The JCPER's review of House Amendment 2 indicates that it would modify the criteria by which the board may award a benefit increase. (Section 169.324) This amendment also would increase the employer contribution rate and also provide mechanisms for its reduction if the retirement system becomes one hundred percent funded and also mandate when the employers transfer employer contributions to the retirement system. (Sections 169.350 & 169.360). The JCPER's review of this amendment would indicate such provisions would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(10).

House Amendment 3 (LAGERS): The JCPER assumes this legislation would permit additional entities to join LAGERS. Any entity eligible to join LAGERS under this legislation would likely need to follow other statutory and regulatory requirements. The JCPER's of this legislation would indicate that its provisions do not create a "substantial proposed change" in future plan benefits as defined in section 105.660(10).

ASSUMPTION (continued)

Kansas City Public School Retirement System as of January 1, 2017

		Funded Ratio
Assets: Market Value	\$631,442,613	64.3%
Actuarial Value	\$684,412,437	69.7%
Liabilities:	\$981,514,827	

Actuarially Determined Contribution Rate (PY 16)

Employer:	9.61%	\$18,656,156
Employee:	9.00%	\$17,471,946 (estimate)
Total:	18.61%	\$36,128,102(estimate)

Covered Payroll: \$194,132,739

Officials from the **Kansas City Public School Retirement System (KCPSRS)** assume this proposal modifies the provisions for the Kansas City Public School Retirement System's (KCPSRS) contribution rate from a fixed/capped rate to the actuarially required contribution (the ARC). The overall goal of the legislation is to move the System toward an actuarial funding ratio of 100% with all due expediency. While a ratio of less than 100% is not necessarily a problem or crisis, the combination of a decreasing funded ratio and contributions falling short of the ARC would, over time, threaten the plan's sustainability.

In addition, KCPSRS is required to be 100% funded before the board may consider granting a cost of living increase to retirees. Other objectives of the legislation include limiting the member rate to 9%; and, after the first two years, limiting any potential employer rate increases to no more than 1% in any year.

One of the most important factors for a well-funded pension plan is making the full actuarially required contribution (the ARC) necessary to fund the benefits promised to members. Currently, the KCPSRS contribution rate is set by statute at a fixed or capped rate and KCPSRS is at the capped contribution rate of 18% (9% active member and 9% employer). Best practices for public pension plans includes paying the ARC each year. Not paying the ARC in one year simply "kicks the bucket" to following years, thereby exacerbating any pension plan underfunding. KCPSRS' Board of Trustees spent this past year analyzing the System's assets, liabilities, and funding plan. All participating employers were engaged in discussions and proposals.

The proposal to increase employer contribution rates, as reflected in HB 2184, evolved from those discussions.

ASSUMPTION (continued)

The provisions of the amendment to sections 169.271- 360 HB 2044 (5769-01) include:

- Effective January 1, 2019, the total contribution rate will be 19.5%, (members 9% + employers 10.5%)
- Effective January 1, 2020, the total contribution rate will be 21.0%, (members 9% + employers 12.0%)
- Rates for 2021 and subsequent years:
 1. The member contribution rate will remain at 9% until the retirement system's funded ratio reaches 100% and the ARC falls below 18%. The member contribution rate will then be 50% of the ARC, but not more than 9%.

2. The employer contribution rate will vary depending on the ARC and the retirement system's funded ratio.

(a) While the funded ratio is below 100%: The employer contribution rate will be the difference between the ARC and the 9% member contribution rate, but not less than 12%, subject to the annual adjustment limits described in (d) below.

(b) When the funded ratio reaches 100% and the ARC is at or above 18%: The employer contribution will be the difference between the ARC and the 9% member contribution rate, subject to the annual adjustment limits described in (d) below. The 12% minimum will no longer apply.

© When the funded ratio is at or above 100% and the ARC is below 18%: The ARC rate will be divided equally between the employer and the member.

To achieve equal contribution rates, the annual adjustment limits described in (d) below will not apply for any year in which the ARC falls below 18% after being above 18% in the prior year, but the limits will apply for other years.

(d) Annual adjustment limits: Except as stated in © above, contribution rates will not be increased by more than 1% over the rate in effect for the prior year and will not be decreased by more than ½% from the rate in effect for the prior year.

ASSUMPTION (continued)

- The rates for 2021 and subsequent years will become effective July 1 rather than January 1 to better coincide with schools’ budget and fiscal year. The rate for each July 1 will be known and available to the employers in the previous year, 18 months in advance of the effective date.

Fiscal Impact: There is no state General Revenue impact from this proposed legislation. KCPSRS is a participating employer of the System and thus will pay the employer contribution increases on its employees from the System’s investment fund. The fiscal impact of this proposal to the Kansas City Retirement System is projected as \$7,820 in calendar year 2019 and \$7,820 in calendar year 2020, thereafter the fiscal impact is projected to be in the range of \$0 zero to \$5,213 in any given year.

Employer Contribution rates by year	Current Rate 9%	2019 Rate - 10.5%	2020 Rate 12.0%	Thereafter, limited to 1% increase (13%)
Total Salaries 2018	\$512,341	\$512,341	\$512,341	\$512,341
Employer Contribution	\$46,921	\$54,741	\$62,561	\$62,561 - \$67,774
Fiscal Impact of increase		\$7,820	\$7,820	\$0 - \$5,213

Source: Kansas City Public School Retirement System

Oversight assumes this proposal will have a significant fiscal impact on the KCPSRS however; KCPSRS is not a local political subdivision; therefore, **Oversight** will not reflect a fiscal impact to their organization.

Oversight assumes the KCPSRS, the Kansas City School District, the Kansas City Charter Schools (22 schools) and the Kansas City Public Library are all members of the KCPSRS.

Oversight also assumes the employers contribution rate will increase from the current 9% to 10.5% in FY 2019, to 12.0% in FY 2020 and a 1% increase thereafter until the system is 100% funded.

Oversight assumes based on the JCPER’s response, the Actuarially Determined Employer Contribution is \$18,656,156.

ASSUMPTION (continued)

	Year ended 12/31/2016 Employee Contribution - 9.61%	2019 Rate 10.5% 1/1/19 - 12/31/19	2020 Rate 12.0% 1/1/2020 - 6/30/21
Total Contribution	\$18,656,156	\$20,383,937	\$23,295,928
Fiscal Impact of increase from current		\$1,727,781	\$4,639,772
Fiscal Impact of 2021 Increase (half year)			

FY 19 (January 2019 - June 2019) = \$864,000 (\$1,727,781 / 2)
 FY 20 (July 2019 - June 2020) = \$864,000 + \$2,320,000 (\$4,639,772/2)
 FY 21 (July 2020 - June 2021) = \$4,640,000

Officials from the Kansas City Public School District, Brookside Charter School, Crossroads Charter School, Ewing Marion Kauffman School, Frontier Schools, KIPP Kansas City Endeavor Academy did not respond to **Oversight's** request for fiscal impact.

In response to a similar proposal from this year (HB 1354), officials from the **Department of Natural Resources (DNR)** assumed this proposal would affect the 114 soil and water conservation districts that may become eligible for Local Government Employees Retirement System (LAGERS). Soil and water conservation district staff are not state employees but are primarily funded through the Parks, Soils and Water sales tax. This also affects the Missouri Department of Natural Resources Soil and Water Conservation Program which currently provides funding through district grants to soil and water conservation districts for retirement.

DNR's current budget includes funds for retirement through district grants. DNR assumes the proposal would likely increase funds for retirement as estimates (based upon a small actuary study) show that the LAGERS rate would be higher than the 7.0 percent of gross salary currently provided.

In FY 2019, up to 111 (3 districts have already had an actuary study completed) soil and water conservation districts may request an actuary study to determine costs to the district for their employees (typically there are 2-3 employees per district) which would be a one time cost of \$500 per district.

ASSUMPTION (continued)

Based upon the results of the actuary study, if all 114 districts chose retirement through LAGERS, (Soil and water conservation districts can choose whether to participate in LAGERS) the cost to the Soil and Water Conservation Program through district grants could increase from the current employer contribution rate of 7 percent to up to 13.7 percent (this includes a 2% prior service cost). Currently, the actual annual cost of salaries for approximately 280 county soil and water district employees is \$8,885,843.00. If all 114 soil and water conservation districts participate in LAGERS and all employees have been with a districts for 20 years or more, the employer contribution rate would increase an additional \$595,352 ($\$8,885,843 \times (13.7\% - 7\%)$) per year.

For purposes of this fiscal note, DNR as made the assumption that if this legislation goes into effect August 28, 2018, it would take approximately 3 months for implementation making FY 19 estimated dollars based on 7 months.

Calculation for Increase in Employer Retirement Contribution:

- 13.7% (Estimated Maximum contribution rate) - 7% (Current rate) = 6.7% (Percent of Increase)
- \$8,885,843 (Current Salaries) x 6.7% (Percent of Increase) = \$595,352 per year

FY19

\$55,500 (Actuary study (One time cost))

\$347,289 (Increase in Employer Retirement Contribution (prorate for 7 months))

\$402,789 Total

FY20 and FY21

\$595,532 (Increase in Employer Retirement Contribution plus a 2.5% inflationary increase)

Oversight will range the cost to the Parks, Soils and Water Sales Tax Fund as \$0 (no Soil and Water Conservation Districts choose to participate in LAGERS) to \$402,789 (all Soil and Water Conservation Districts require an actuary study and participate in LAGERS, prorated for 7 months) in FY 2019 and will show a cost of \$0 to \$595,532 (plus inflation) in FY 2020 and 2021.

ASSUMPTION (continued)

Officials from the **Missouri Local Government Employees Retirement System** and the **Missouri Department of Conservation** each assume the proposal will have no fiscal impact on their respective organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
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**PARKS, SOILS AND WATER SALES
 TAX FUND**

<u>Cost - DNR (p. 3-4)</u> Soil and Water District LAGERS participation	<u>\$0 to (\$402,789)</u>	<u>\$0 to (\$610,236)</u>	<u>\$0 to (\$625,492)</u>
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ESTIMATED NET EFFECT TO THE PARKS, SOILS AND WATER SALES TAX FUND	<u>\$0 to (\$402,789)</u>	<u>\$0 to (\$610,236)</u>	<u>\$0 to (\$625,492)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
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LOCAL POLITICAL SUBDIVISIONS

<u>Cost - (p. 9)</u> Increased employer contribution rate	<u>(\$864,000)</u>	<u>(\$3,184,000)</u>	<u>(\$4,640,000)</u>
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ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>(\$864,000)</u>	<u>(\$3,184,000)</u>	<u>(\$4,640,000)</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill will allow a metropolitan planning organization organized under 23 U.S.C. Section 134 and designated by the Governor to be considered a political subdivision of the state and allow them to be eligible for membership in the Missouri local government employees' retirement system.

FISCAL DESCRIPTION (continued)

This bill also modifies provisions relating to the Public School Retirement System of Kansas City.

The retirement system's funded ratio as of January 1st of the year preceding the year of a proposed increase shall be at least 100% before adjusting for the effect of the proposed increase.

The member contribution rate for 2019 and subsequent periods shall be 9% of compensation unless a lower member contribution rate applies as set forth in the bill.

Currently, the actuary for the retirement system determines the rate of contribution payable by employers each year. For calendar year 2019, the employer contribution rate shall be 10.5%.

From January 1, 2020, through June 30, 2021, the rate shall be 12%. For the 12-month period beginning July 1, 2021, and for each subsequent 12-month period beginning July 1 of each year, the employer contribution rate shall be determined as set forth in the bill.

The Board of Trustees shall certify to the employers the contribution rate to be effective for July 1, 2021, and for each following July 1st no later than six months prior to the date such rate is to be effective.

Starting January 1, 2019, each employer shall transfer its employer contributions to the retirement system promptly following the end of each payroll period at the time the employer transfers member contributions.

This proposal also allows employees of soil and water conservation districts to become members of the Missouri Local Government Employees' Retirement System upon a majority vote of the district's governing board.

Prior to the disestablishment of a soil and water conservation district, the district must pay all monies owed to the retirement plan for unfunded accrued liabilities of past and current employees.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri Local Government Employees Retirement System
Joint Committee on Public Employee Retirement
Kansas City Public School Retirement System
Department of Natural Resources
Missouri Department of Conservation

Ross Strope

A handwritten signature in black ink, appearing to read "Ross Strope", with a stylized flourish at the end.

Acting Director
February 21, 2018