

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1109
Appropriations

(Delegate B. Barnes)

Budget and Taxation

**Teachers' Retirement and Pension Systems - County Boards of Education
Payments**

This bill relieves county boards of education, including the Baltimore City Board of School Commissioners, from their fiscal 2017 obligation to pay \$19,695,182 of their share of the employer normal cost for their employees who are members of the Teachers' Retirement System (TRS) or Teachers' Pension System (TPS). If the Governor does not transfer funds totaling that amount restricted in the fiscal 2018 budget as a deficiency appropriation for State Retirement Agency (SRA) administrative fees to instead cover the foregone contributions by county school boards, the Governor must provide an equal amount in either fiscal 2018 or 2019 for that purpose.

The bill takes effect June 1, 2017.

Fiscal Summary

State Effect: Assuming that the Governor transfers the funds as required by the bill, there is no effect on State governmental finances. The FY 2018 State budget includes a \$19.7 million deficiency appropriation for SRA administrative fees that is restricted only for the purposes of the bill. If the Governor does not transfer the funds, general fund expenditures increase by \$19.7 million in FY 2018 or 2019 to cover the county school boards' payments to the State Retirement and Pension System (SRPS). This analysis assumes that the Governor elects to transfer the budgeted funds, so there is no fiscal effect. No effect on revenues.

Local Effect: Assuming the Governor transfers the funds as required by the bill, local school system expenditures for SRPS payments decrease by \$2.8 million (net effect) in FY 2017. Community college and participating governmental unit revenues decrease by the grant amounts allocated in the FY 2017 deficiency appropriation.

Small Business Effect: None.

Analysis

Current Law:

Local Employer Contributions

Chapter 1 of the first special session of 2012 required local school boards to pay the normal cost for their employees who are members of TRS/TPS, phased in over five years. The phase-in period is complete, so beginning in fiscal 2017, local school boards pay 100% of the normal cost. Beginning in fiscal 2013, Chapter 1 also required county governments and Baltimore City to adjust their maintenance of effort payments to local school boards to compensate them for teacher pension costs. Beginning in fiscal 2017, the fiscal 2016 payments by the counties are included in subsequent years' per-pupil maintenance of effort calculations. Depending on enrollment trends in each county, some local school boards may be responsible for a portion of any increase in normal cost payments between fiscal 2016 and each succeeding year.

Chapter 1 also established Teacher Retirement Supplemental Grants to provide financial support to local jurisdictions with limited capacity to pay their share of the normal cost. Under the grant program, nine local governments receive a total of \$27.7 million annually in supplemental grants. In addition, Chapter 1 repealed the requirement that local school boards reimburse the State for their TRS/TPS employees paid with federal funds beginning in fiscal 2015.

“Normal contributions” (or “normal cost”) is an actuarial term that is not defined in statute, but it refers to the actuarial value of pension benefits earned by an active member or group of active members in a given year. Statute defines the “normal contribution rate” as a fraction that has as its numerator the sum of all normal contributions, net of member contributions, and as its denominator, the aggregate annual earnable compensation of members of the State.

Administrative Fees

Chapter 397 of 2011 (the Budget Reconciliation and Financing Act of 2011) required that the administrative expenses of SRA be paid through a per-member administrative fee charged against all participating employers. Each employer, including the State and local school boards, pays the fee based on its proportion of the total employees who participate in SRPS; the State pays the fees on behalf of libraries.

Background: When Chapter 1 was enacted, normal cost rate projections from the SRPS actuary were used to estimate local school board payments in fiscal 2017, when the phase-in would be complete and the local school boards would be required to pay the actual normal cost. Shortly after the enactment of Chapter 1, the SRPS board adjusted several actuarial assumptions that it uses to calculate pension contribution rates, which raised the normal cost rate. In fiscal 2017, the *actual* normal cost payments owed by local school systems were approximately \$25.0 million higher than the projections made in 2012.

The General Assembly sought to alleviate some of the financial burden on local school systems by reserving \$19.0 million in the fiscal 2017 budget bill for grants to local school boards to provide relief for the higher payments due to the higher *actual* normal cost rate (but not due to higher local school system salaries). However, the Governor elected not to release the reserved funds.

The fiscal 2018 State budget includes a fiscal 2017 deficiency appropriation of \$19,695,182 in Payments to Civil Divisions to provide grants to local school boards and county and municipal governments to fully offset the per member fees that they pay to cover SRA's administrative costs. As the fees are paid by any employer whose employees participate in SRPS, the deficiency grants will be divided among local school boards, community colleges, and county and municipal governments that are participating governmental units within SRPS. **Exhibit 1** shows that, although the total amount of the deficiency appropriation is greater than the amount of restricted funds in the fiscal 2017 budget bill, local school boards receive fewer funds from the Governor's deficiency appropriation than they would have received from the funds restricted in the fiscal 2017 budget bill. The Department of Legislative Services notes that there are approximately 120 participating governmental units in SRPS in addition to the school boards and community colleges that also pay administrative fees to support the agency.

Exhibit 1
Allocation of Local Pension Grants
Fiscal 2017
(\$ in Millions)

	<u>2017 Budget Bill</u>	<u>Governor's 2017 Deficiency</u>
School Boards	\$19.0	\$16.9
Community Colleges		0.9
County and Municipal		1.9
Total	\$19.0	\$19.7

Source: Department of Budget and Management; Department of Legislative Services

State Fiscal Effect: If the Governor transfers the funds designated for relief of SRA administrative fees to the SRPS accumulation fund in fiscal 2017 for the purpose of covering a portion of normal cost payments by local school boards, the bill has no State fiscal effect because it only alters the purpose of grants that are made to, or on behalf of, local governments using funds that are already included in the fiscal 2018 budget bill. The fiscal 2018 budget includes language requiring the Governor to distribute the fiscal 2017 deficiency appropriation as directed in this bill, contingent on enactment of this bill or its cross file. Absent the bill, local school boards pay the full normal cost, so it has no effect on State pension liabilities either.

If the Governor does *not* transfer the funds to SRPS, general fund expenditures increase by \$19.7 million in either fiscal 2018 (not mandated) or fiscal 2019 (which would be a mandated appropriation) to cover the payments not being made by local school boards. This analysis assumes that the Governor transfers the deficiency appropriation to SRPS, so there is no appropriation in fiscal 2018 or 2019.

Local Fiscal Effect: **Appendix 1** compares the grants that local governments receive under the bill with what they receive under the deficiency appropriation in the fiscal 2018 budget. Although the total funding amounts are the same, the distribution of those funds is different.

Additional Information

Prior Introductions: None.

Cross File: SB 1001 (Senator Guzzone, *et al.*) - Budget and Taxation.

Information Source(s): Department of Budget and Management; State Retirement Agency; Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2017
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Appendix 1
Local Grant Amounts

	<u>The Bill –</u> <u>School Boards</u>	<u>Deficiency –</u> <u>School Boards</u>	<u>Deficiency –</u> <u>Other Local</u>	<u>Deficiency –</u> <u>Total</u>
Allegany	\$194,539	\$187,186	\$145,864	\$333,051
Anne Arundel	1,672,176	1,565,883	140,005	1,705,889
Baltimore City	1,757,221	1,233,186	45,809	1,278,995
Baltimore	2,224,722	1,774,567	114,404	1,888,970
Calvert	374,964	335,759	1,551	337,310
Caroline	115,786	132,288	17,548	149,836
Carroll	525,216	547,289	61,165	608,454
Cecil	342,522	327,226	72,598	399,824
Charles	561,204	452,986	67,592	520,578
Dorchester	97,616	108,093	63,462	171,555
Frederick	852,772	917,794	54,109	971,903
Garrett	82,865	88,863	41,184	130,047
Harford	716,052	784,722	286,289	1,071,011
Howard	1,499,240	1,267,648	74,948	1,342,595
Kent	46,294	49,782	39,708	89,491
Montgomery	4,130,705	2,757,766	215,015	2,972,781
Prince George's	2,900,265	2,789,536	711,545	3,501,081
Queen Anne's	160,316	162,837	99,696	262,532
St. Mary's	336,599	327,538	85,177	412,715
Somerset	70,108	73,044	44,051	117,095
Talbot	90,082	99,255	46,710	145,965
Washington	445,987	477,818	84,975	562,793
Wicomico	319,849	294,650	132,755	427,405
Worcester	178,081	167,645	125,662	293,306
Total	\$19,695,182	\$16,923,361	\$2,771,821	\$19,695,182

“Other Local” includes community colleges and participating governmental units.

Source: Department of Budget and Management; Department of Legislative Services
