

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

| ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates) | | | | |
|---|-------------------|---------|-------------------|---------|
| | FY 2013-14 | | FY 2014-15 | |
| | EXPENDITURES | REVENUE | EXPENDITURES | REVENUE |
| GENERAL FUNDS | 3,068,998 | | 3,186,000 | |
| CASH FUNDS | | | | |
| FEDERAL FUNDS | | | | |
| OTHER FUNDS | | | | |
| TOTAL FUNDS | 3,068,998 | | 3,186,000 | |

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB554 amends the Omaha (Class V) School Employee Retirement System (OSERS) as follows.

1. Creates a new tier of reduced benefits for OSERS members who begin work for the first time on or after September 1, 2013.
 - a. The final average salary is averaged over 5 years versus the current 3.
 - b. The cost-of-living-adjustment (COLA) is 1% versus the current 1.5%
2. The employee contribution rate is not specified.
3. The State contribution is increased from 1% of compensation to 2% with no sunset.
4. The sunset is stricken for the school budget exclusion above the 2008 employer contribution rate.

An actuarial analysis is required to determine the fiscal impact of the plan design changes.

Cost elements are as follows.

1. Cost of the actuarial analysis. (OSERS)
2. Cost of IT programming. (OSERS)
3. Cost of increasing the State contribution from 1% of compensation to 2% is estimated to be \$3,068,998 for FY14 and \$3,186,000 for FY15 (General Funds).
4. The stricken sunset for the school budget exclusion could have an impact on TEEOSA School Aid in FY2017-18.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES

| | | |
|---------|-----|---|
| LB: 554 | AM: | AGENCY/POLT. SUB: Omaha School Employees' Retirement System |
|---------|-----|---|

| | | |
|------------------------|------------------------|-----------------|
| REVIEWED BY: Gary Bush | DATE: February 4, 2013 | PHONE: 471-4161 |
|------------------------|------------------------|-----------------|

COMMENTS: LB554 would increase the state percent of salary contribution for the State School Employee Retirement System and all Class V School Employees Retirement Act plans. Currently, the Omaha Public School District is the only in Class V District in the state.

Impact to Class V Plan (Omaha)

LB554 would increase the state contribution provided to Class V Plans (Omaha) by 100%, from 1% to 2%. Salaries are not expected to remain flat but are assumed by the Public Employee Retirement Board to increase by 4% per year. The general fund impact to the state in FY2014 is \$3,068,998, in FY2015 is \$3,186,000, in FY2016 is \$3,313,440, and in FY2017 is \$3,445,978. See table below for projected impact through FY2038.

State Percent of Salary Contribution per 79-966(2) for Class V Plan (Omaha)

| Fiscal Year | Current Law (a) | LB554 (b) | Increased state general fund appropriations |
|-------------|-----------------|-------------|---|
| 2014 - 2015 | 6,254,988 | 12,509,996 | 6,254,998 |
| 2016 - 2017 | 6,759,418 | 13,518,835 | 6,759,418 |
| 2018 - 2038 | 80,200,231 | 229,143,518 | 148,943,287 |

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES

| | | | |
|------------------------|---------------|---|-----------------|
| LB: 554 | AM: | AGENCY/POLT. SUB: Omaha School Employees' Retirement System | |
| REVIEWED BY: Gary Bush | | DATE: February 4, 2013 | PHONE: 471-4161 |
| Total | \$504,526,845 | \$225,172,349 | \$161,957,702 |

Salaries are projected to increase by 4% each year per Public Employee Retirement Board assumption adopted September 2012.

(a) Current law sets the state percent of salary at 1% until June 30, 2017. On July 1, 2017, the state percent of salary is reduced to seven tenths of one-percent (0.7%).

(b) LB554 changes the state percent of salary from 1% to 2% on July 1, 2013.

The proposed two percent of salary contributed by the state is permanent in LB554. Therefore, the General Fund appropriation necessary to meet the state percent of salary contribution is projected to continue to grow. In years when a Class V Plan's (Omaha) actuarial valuation indicates that additional contributions are required, the state percent of salary contribution would reduce the actuarial required contribution of the plan. In years when a Class V Plan's (Omaha) actuarial valuation indicates that employer and employee contribution plus interest income is sufficient to meet or exceed the actuarial requirement, the state percent of salary contribution would fund the plan at a higher level than required.

Impact to State Plan

LB554 would increase the state contribution to the State School Employee Retirement system by 100%, from 1% to 2%. Salaries are not expected to remain flat but are assumed by the Public Employee Retirement Board to increase by 4% per year. The general fund impact is projected to be \$17,235,000 in 2015, \$17,924,400 in FY2016, and \$18,641,376 in FY2017.

The proposed two percent of salary contributed by the state is permanent in LB553. Therefore, the General Fund appropriation necessary to meet the state percent of salary contribution is projected to continue to grow. In years when the actuarial valuation indicates that additional contributions are required, the state percent of salary contribution would reduce the actuarial required contribution of the plan. In years when the actuarial valuation indicates that employer and employee contribution plus interest income is sufficient to meet or exceed the actuarial requirement, the state percent of salary contribution would fund the plan at a higher level than required.

See table below for projected impact through FY2038.

State Percent of Salary Contribution per 79-966(2)

| Fiscal Year | Current Law (a) | LB553 (b) | Increased state general fund appropriations |
|--------------|----------------------|------------------------|---|
| 2014 - 2015 | 34,109,535 | 68,219,070 | 34,109,535 |
| 2016 - 2017 | 36,565,776 | 73,131,552 | 36,565,776 |
| 2018 - 2038 | 433,851,534 | 1,239,575,812 | 805,724,278 |
| Total | \$504,526,845 | \$1,380,926,434 | \$876,399,589 |

Salaries are projected to increase by 4% each year per Public Employee Retirement Board assumption adopted September 2012.

(a) (a)Current law sets the state percent of salary at 1% until June 30, 2017. On July 1, 2017, the state percent of salary is reduced to seven tenths of one-percent (0.7%).

(b) (b)LB553 changes the state percent of salary from 1% to 2% on July 1, 2013.

Note: Year by Year detail available upon request from the State Budget Division.

Detail for the impact of the increase to the state percent of salary contribution for the State School Employee Retirement System is shown in the State Budget Division comment to the Nebraska Public Employees Retirement System fiscal note to LB553.

Please complete ALL (5) blanks in the first three lines.

2013

LB⁽¹⁾ 554 FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Omaha School Employees' Retirement System

Prepared by: ⁽³⁾ Michael Smith Date Prepared: ⁽⁴⁾ 2-1-2013 Phone: ⁽⁵⁾ 402-557-2105

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

| | <u>FY 2013-14</u> | | <u>FY 2014-15</u> | |
|--------------------|---------------------|----------------|---------------------|----------------|
| | <u>EXPENDITURES</u> | <u>REVENUE</u> | <u>EXPENDITURES</u> | <u>REVENUE</u> |
| GENERAL FUNDS | _____ | _____ | _____ | _____ |
| CASH FUNDS | _____ | _____ | _____ | _____ |
| FEDERAL FUNDS | _____ | _____ | _____ | _____ |
| OTHER FUNDS | _____ | _____ | _____ | _____ |
| TOTAL FUNDS | <u>_____</u> | <u>_____</u> | <u>_____</u> | <u>_____</u> |

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate: The amount of the increase in employee or employer contributions is unspecified. However, an increase in the contribution rate of 1/2% would result in an increase in School District expenditure of approximately \$1.5 million per fiscal year. The changes in benefits will affect only those employees hired after the effective date of the legislation. Therefore the reduction in liabilities to the Retirement System will be cumulative over the years of those newly hired employees lifetime and would not generate a near-term impact on the liabilities of the Retirement System.

MAJOR OBJECTS OF EXPENDITURE

Personal Services:

| <u>POSITION TITLE</u> | <u>NUMBER OF POSITIONS</u> | | <u>2013-14</u> | <u>2014-15</u> |
|---------------------------|----------------------------|--------------|---------------------|---------------------|
| | <u>13-14</u> | <u>14-15</u> | <u>EXPENDITURES</u> | <u>EXPENDITURES</u> |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| Benefits..... | _____ | _____ | _____ | _____ |
| Operating..... | _____ | _____ | _____ | _____ |
| Travel..... | _____ | _____ | _____ | _____ |
| Capital outlay..... | _____ | _____ | _____ | _____ |
| Aid..... | _____ | _____ | _____ | _____ |
| Capital improvements..... | _____ | _____ | _____ | _____ |
| TOTAL..... | _____ | _____ | _____ | _____ |