PREPARED BY: Kathy Tenopir
DATE PREPARED: February 21, 2017
PHONE: 471-0058

LB 548

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)

	FY 2017-18		FY 2018-19	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	See Below		See Below	

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

LB548 proposes to consolidate the Class V (Omaha) School Employees Retirement Plan (OSERS Plan) with the School Employees Retirement Plan (School Plan) beginning July 1, 2020. OSERS Plan members transferred to the School Plan will continue to receive the benefits provided under the current OSERS Plan. Omaha Public School (OPS) employees hired on or after July 1, 2020 will be members of the School Plan and receive the same benefits as members of the School Plan.

The cost elements associated with LB548 include but are not limited to the following.

1. The cost of a new, separate pension administration system for OSERS Plan members hired before July 1, 2020. OSERS IT system is not compatible with the Nebraska Public Employees Retirement Systems' (NPERS) IT system. Bases on information provided by the vendor, NPERS estimates the new system to cost between $2 million - $3 million. There is no indication of which entity is responsible for the cost of a new IT system. Both OSERS and NPERS indicate the cost should not be borne by plan members.
2. The planning costs associated with actually transferring all records, documents, data, and information from the OSERS Plan to the School Plan/NPERS.
3. The cost of the initial detailed actuarial study to be contracted for by the Nebraska Retirement Systems Committee... NPERS estimates the cost to be $55,000. According to the Rules of the Legislature, Rule 5 section 15(b), "No bill for which an actuarial study is necessary to determine the cost of such proposed changes shall be enacted until an actuarial study has be conducted and the results reported to the Legislature.
4. The costs associated with the administration of approximately 12,700 additional plan members to include staff, office space, supplies, etc. NPERS has estimated the cost to be $1,290,000 which is the approximate budget of OSERS. This cost is to be paid by plan assets.
5. The cost to the State for assuming OSERS unfunded liability. Omaha Public School's (OPS's) annual payment is only up the funded ratio of the School Plan. An actuarial study is necessary. See item #3 above.
6. The cost of the annual actuarial studies necessary to determine OPS's annual payments. This cost will be borne by the plan assets.
7. The loss of interest income. OPS's annual payment to the School Plan is at the end of the fiscal year rather than the beginning for the fiscal year. This represents a loss to the plan's assets.
8. Exempts the OPS employer contribution from the budget/spending limitation.
9. It would appear that OPS would realize cost savings. The State would be assuming the OSERS Plans unfunded liability. OPS did not respond to the request for a fiscal impact statement.

ADMINSTRATAIVE SERVICE STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 548	AM:	AGENCY/POLT. SUB: Neb. Public Employees Retirement System
REVIEWED BY: Gary Bush	DATE: 2/2/17	PHONE: (402) 471-4161
COMMENTS: The agency's estimate appears to be reasonable give most of the assumptions used. Unsure of the need to have offices in Omaha. NPERS manages the retirement of all others public schools in the state and does not have an office in any of communities that the schools reside.		

Please complete ALL (5) blanks in the first three lines. **2017**

LB(1) 548 **FISCAL NOTE**

State Agency OR Political Subdivision Name: (2) NPERS

Prepared by: (3) Randy Gerke Date Prepared: (4) 1/31/2017 Phone: (5) (402) 471-9495

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2017-18		FY 2018-19	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	*$2,555,000			
CASH FUNDS	**$1,290,000			
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	$3,845,000			

Explanation of Estimate: *General fund expenditure estimates would need to be carried over until the implementation of the project. **Cash fund expenditure estimates would be for 2020-2021 and going forward.

LB548 consolidates the Class V School Employees Retirement Plan with the existing State administered School Employees Retirement Plan beginning July 1, 2020. Existing OSERS members at that time would transfer with their corresponding existing benefits. New employees after July 1, 2020 would receive the same benefits as the School Employees Retirement Plan.

An extensive actuarial study will be necessary to determine unfunded liabilities and the impact of the provisions of this bill to both the OSERS and the State School plan. Permission will need to be obtained from OSERS to use their data. The estimate from the contracted actuary for this study is $55,000. This will be a one-time cost that should not come from NPERS existing trust funds. It is listed as general fund expenditure.

This merger for technical purposes would need to be administered as a new plan for the OSERS members that will be keeping their current benefits. This will involve extensive programming changes in the NPER's computer system. There are also concerns that the data coming from OSERS will need extensive manipulation because of incompatibility with NPERS systems. It is NPERS understanding that OSERS uses an IT system that is not readily compatible to the Java based system NPERS uses. The resources are not currently available from NPERS or the OCIO to make these extensive changes. Hewlett Packard was the vendor that did the original programming of NPERS system. Their estimate for programming the provisions of this bill is between 12,780 – 18,092 hours or between $2,000,000 - $3,000,000. The mid-range is being used for this fiscal note ($2,500,000). This cost will be a one-time cost however it will likely need to be carried over through this coming biennium and into the next year of the next biennium because of the length of time that will be needed to program these changes. Payment of this expenditure should not come from NPERS existing trust funds. It is listed as general fund expenditure. This estimate does not include any planning and administrative costs for NPERS at this time. Those costs should also come from general fund money. The following is the process to coming to the decision to outsource:

The main technical challenge in implementing LB548 is developing a Pension Administration System for the OPS plan. A system is needed to perform administrative functions such as receiving contribution files, maintaining member accounts, and calculating and paying benefits. Since the existing OSERS plan has different features than the NPERS school plan, NPERS would not be able to simply transfer the existing OSERS member data into the NPERS school plan. A different solution is needed to transition those responsibilities to NPERS.

OSERS Pension Administration System (PAS) Notes:

- The OSERS PAS system is a PeopleSoft system that runs on infrastructure owned and maintained by Omaha Public Schools (OPS). There is a PeopleSoft pension module that is used for pension functions. The module has been customized to meet OSERS needs.

- The PeopleSoft version is 8.8 or 8.9. They are planning to upgrade to 9.2
- OPS does all of the IT work for OSERS, including support, maintenance and programming changes for the PeopleSoft system.

Possible options for handling this transition:

1. Move the existing PeopleSoft PAS system to State of Nebraska
   a. NPERS does not currently have the staff in place to support and maintain the PeopleSoft system. We don't have staff with the knowledge and experience necessary to maintain PeopleSoft systems
   b. NPERS would not be able to move the OPS employees that provide OSERS IT support to NPERS for the purpose of supporting the existing legacy PAS system
   c. It would likely not be feasible to move the PeopleSoft pension system to the state infrastructure without considerable expense.
   d. It doesn't make sense from an administrative and cost perspective to maintain two separate PAS systems
      i. Expense of having two teams to support different systems
      ii. Software support expense of two different systems
      iii. Administrative and infrastructure overhead of two systems
      iv. Cost of training staff on two systems
      v. Duplication of many functions that should be in a single integrated system
   e. For the reasons stated above, this does not appear to be a viable option

2. Hire additional staff to add the Omaha plan to NPRIS
   a. NPRIS (Nebraska Public Retirement Information System) is the PAS system that is used for all of the retirement plans administered by NPERS.
   b. A new retirement plan could be added to NPRIS
   c. The current NPERS IT staff is busy supporting the PAS system for current NPERS plans and does not have the time to program a new Omaha plan in NPRIS
   d. Additional staff could be hired to do the work, but it would be difficult to find developers with the specialized knowledge that is needed.
   e. There is a high level of risk in taking on a large development project such as this without highly trained programmers, data analysts and system integrators that specialize in this field.
   f. Because of the higher level of risk and because it would be very difficult to find qualified technical resources, this is a less viable option.

3. Hire a vendor to add the Omaha plan to NPRIS
   a. NPRIS was developed by a vendor that specializes in developing and implementing Pension Administration Systems. The vendor could be contracted to add the Omaha retirement plan to NPRIS.
   b. The probability of a successful implementation is higher with this option because the vendor has experience developing systems for NPERS and several other public retirement systems.
   c. This is the most viable option.

The bill is silent as to operating items that will be needed such as retaining existing OSERS employees as State employees, retaining office space in Omaha, or what existing office and operating contracts would need to be transferred to NPERS operating budget or would the School trust funds be combined for financial reporting purposes. All assets and liabilities are to be transferred to NPERS on the effective date. According to OSERS audited financial statements, last fiscal year the OSERS operating expenditures were $1,290,000. This includes Personnel costs, Professional fees, and Other operating costs listed on OSERS financial statements. Carrying out the provisions of this bill will require NPERS to included additional personnel, training and printing costs, auditing costs, and other operating costs associated with the OSERS additions. It is assumed that these types of expenditures are included in the OSERS financial statements for administering the provisions of this bill and would be a good estimate going forward for NPERS budgetary needs. Given the unknowns, NPERS is including this figure as an on-going operating expense going forward. The spending authority would not be necessary for these ongoing expenses until July 1, 2020 but is listed on this fiscal note as there isn’t anywhere else to show it. After the merger, the ongoing operating expenses would come from the trust cash funds.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	NUMBER OF POSITIONS 17-18	18-19	2017-18 EXPENDITURES	2018-19 EXPENDITURES
Benefits...				
Operating...				
Travel...				
Capital outlay....................................				
Aid..				
Capital improvements..........................				
TOTAL...				

Please complete ALL (5) blanks in the first three lines. **2017**

LB(1) 548 **FISCAL NOTE**

State Agency OR Political Subdivision Name: (2) OSERS

Prepared by: (3) Cecelia M. Carter **Date Prepared:** (4) 02.06.2017 **Phone:** (5) (531) 299-9423

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2017-18		FY 2018-19	
	EXPENDITURES	**REVENUE**	**EXPENDITURES**	**REVENUE**
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	$			

Explanation of Estimate: *General fund expenditure estimates would need to be carried over until the implementation of the project. **Cash fund expenditure estimates would be for 2020-2021 and going forward.

LB548 looks to consolidate the Class V School Employees Retirement Plan with the existing State administered School Employees Retirement Plan beginning July 1, 2020. The bill provisions call for existing OSERS members at that time to transfer with their corresponding existing benefits to the NSERS plan. New employees to OPS after July 1, 2020 would receive the same benefits as the School Employees Retirement Plan.

An extensive actuarial study will be necessary to determine unfunded liabilities and the economic impact of the provisions of this bill to both OSERS and the State School plan. Such a study may require a Memorandum of Understanding (MoU) by and between the School District of Douglas County 0001, the Retirement System for the School District of Douglas County 0001, and the Nebraska State Employees' Retirement System. A MoU would likely require drafting / review from legal counsel representing each interested party for the protection of sharing proprietary membership data information between the agencies. This would be a one-time legal cost that should not be expensed to the retirement trust fund(s), but rather expensed to the employer's and state's general fund(s).

This consolidation for technical purposes would likely require OSERS to be administered as a new plan within NPERS. This will involve extensive programming changes in the NPER's computer system. There are concerns the OSERS data will need extensive re-formatting due to incompatibility with NPERS systems. It is OSERS understanding that OSERS uses an IT system that is not readily compatible to the Java based system NPERS uses. The resources are not currently available from OSERS to make these extensive changes. Payment of this type of expenditure should not be expensed to existing trust funds. In addition, a project of this magnitude will require extensive planning and administrative costs for OSERS and NPERS staff and additional needed term-limited staff. Those costs should also come from general fund money. The following is the process to coming to the decision to outsource:

The main technical challenge in implementing LB548 is developing a Pension Administration System (PAS) for the OPS plan. A system is needed to perform administrative functions such as receiving contribution files, maintaining member accounts, and calculating and paying benefits. It is understood that since the existing OSERS plan has different features than the NPERS school plan, a simple transfer of the existing OSERS member data into the NPERS school plan would not be feasible. A different solution is needed to transition those responsibilities to NPERS.

OSERS Pension Administration System (PAS) Notes:

- The OSERS PAS system is a PeopleSoft system that runs on infrastructure owned and maintained by Omaha Public Schools (OPS). There is a PeopleSoft pension module that is used for pension functions. The module has been highly customized to meet OSERS needs.

- The PeopleSoft version is 8.8 or 8.9. They are planning to upgrade to 9.2
- OPS IT staff does all of the IT work for OSERS, including support, maintenance and programming changes for the PeopleSoft system.

Additionally, LB 548 is silent as to operating items that will be needed - such as whether OSERS existing employees (who are members of the OSERS retirement system) are retained with NPERS as State employees and whether they continue to accrue benefits as OSERS members or whether they will be required to convert to the State employee retirement system. An analysis of the economic and equitable impact of any change in employee benefit would have to be analyzed for the OSERS staff members. This would be a one-time cost which could not be expensed to the OSERS trust fund.

An analysis of whether retaining office space in Omaha would prove an economic benefit to NPERS is yet to be determined. A satellite office in Omaha for all NPERS plans could prove beneficial as it would enable NPERS to serve a larger percentage of its eastern Nebraska membership more personally. Additionally, a satellite office in Omaha could prove beneficial to NPERS to serve as a co-location under NPERS disaster recovery plan. However, this would be a cost to the State.

LB 548 appears to change the timing of employer contribution payments from per month to "at the end of the fiscal year." Analysis is needed to determine the cost in time loss on the investments attributable to OSERS and/or NSERS and the impact of this time loss on reducing the unfunded liability on OPS.

Implementing the provisions of this bill will likely require NPERS to include additional personnel, training and printing costs, auditing costs, and other operating costs associated with the OSERS additions and communications to the membership. It would prove most beneficial to commission a study to follow-up on unanswered questions and assess possible solutions to OPS's funding questions.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	NUMBER OF POSITIONS 17-18	18-19	2017-18 EXPENDITURES	2018-19 EXPENDITURES
Benefits………………………………...……				
Operating…………………………...……….				
Travel………………………………………..				
Capital outlay…………………...…………..				
Aid…………………………………………...				
Capital improvements……………………...				
TOTAL……………………………….….				