

Colorado Legislative Council Staff Fiscal Note
**STATE and STATUTORY PUBLIC ENTITY
 FISCAL IMPACT**

Drafting Number: LLS 13-0954
Prime Sponsor(s): Sen. Steadman
 Rep. Gerou

Date: March 25, 2013
Bill Status: Senate Appropriations
Fiscal Analyst: Alex Schatz (303-866-4375)

TITLE: CONCERNING THE STATE'S AUTHORITY TO PREPAY ITS OBLIGATION FOR THE UNFUNDED ACCRUED LIABILITY OF OLD HIRE PENSION PLANS THAT ARE AFFILIATED WITH THE FIRE AND POLICE PENSION ASSOCIATION, AND, IN CONNECTION THEREWITH, MAKING AN APPROPRIATION.

Fiscal Impact Summary	FY 2013-14	FY 2014-15	FY 2018-19
State Revenue			
State Transfers Transfer from insurance premium tax proceeds to the Old Hire Plan Members' Benefit Trust Fund	\$20,000,000		(\$28,712,586)
State Expenditures General Fund Exempt	\$20,000,000		(\$28,712,586)
FTE Position Change			
Effective Date: August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed.			
Appropriation Summary for FY 2013-2014: See State Appropriations section.			
Statutory Public Entity Impact: See Statutory Public Entity Impact section.			

Summary of Legislation

This bill, **recommended by the Joint Budget Committee**, modifies the state's contribution toward the unfunded liability of old hire pension plans affiliated with the Fire and Police Pension Association (FPPA) by providing an additional payment in FY 2013-14. Under current law, approximately \$25.3 million from insurance premium tax proceeds will be transferred to the Old Hire Plan Members' Benefit Trust Fund on April 30, 2014. The bill instructs that an additional transfer of \$20 million between these accounts will also occur on that day.

Under current law, state contributions toward old hire pension plan liability are shown as an informational appropriation of General Fund Exempt funds to the Department of Treasury in the annual Long Bill. The bill authorizes future contributions to the Old Hire Plan Members' Benefit Trust Fund to be made in supplemental appropriation bills or Long Bill appropriations, in addition to statutory transfers.

Background

In 1978 and 1979, the state enacted legislation to reform local pension plans for police officers and firefighters hired prior to April 8, 1978 (old hire). The purpose of the reform was to ensure that local pension plans were actuarially sound, and included state financial assistance conditioned on increases in both employer and employee contributions. The state currently provides assistance to eight old hire plans under the management of the FPPA.

Under current law, the Department of the Treasury makes annual payments to the old hire pension plan liability from insurance premium taxes that would otherwise be credited to the General Fund, with a final payment currently scheduled for April 30, 2019. Prior to making statutory transfers and other expenditures, the Department of Treasury collects funds for police and firefighter pensions in the General Fund Exempt account.

State Transfers

The bill results in a one-time transfer of \$20 million in FY 2013-14 from the proceeds of insurance premium taxes to the Old Hire Plan Members' Benefit Trust Fund. This transfer on April 30, 2014, uses accrued insurance premium tax revenue in the General Fund Exempt account.

State Expenditures

In FY 2013-14, the bill increases state expenditures by \$20 million for contributions to FPPA liabilities. In FY 2018-19, state expenditures will be decreased by \$28.7 million. The net change is a savings of \$8.7 million.

By adjusting the schedule of state contributions to unfunded liabilities for old hire FPPA plans, the bill reduces the overall cost of payments to the Old Hire Plan Members' Benefit Trust Fund. Based on the current total balance of outstanding state contributions of \$141,599,087, the bill reduces total payments by \$8,712,586. This savings will be realized in FY 2018-19, when the final payment is made on April 30, 2019. Table 1 summarizes the effect of SB13-234 in FY 2013-14 and future fiscal years.

Table 1. Comparison of Payment Schedule, Current Law Versus SB13-234			
Fiscal Year	Current Law	SB13-234	Net Change
FY 2013-14	\$25,321,079	\$45,321,079	\$20,000,000
FY 2014-15	25,321,079	25,321,079	0
FY 2015-16	25,321,079	25,321,079	0
FY 2016-17	25,321,079	25,321,079	0
FY 2017-18	25,321,079	25,321,079	0
FY 2018-19	44,991,739	16,279,153	(28,712,586)
Total	\$171,597,134	\$162,884,548	(\$8,712,586)

** Calculations in this table are based on a current estimate of \$141,599,087 as the balance owed on the state's contribution to old hire pension plan liability. The table also adopts current FPPA assumptions of statutory payments and a 7.5 percent interest rate, compounded annually.*

Statutory Public Entity Impact

The bill reduces unfunded liabilities in FPPA old hire pension plans. The reduction in unfunded liability has no immediate effect on administration or financial capacities of the FPPA. However, the FPPA must perform certain actuarial studies and other functions associated with the state contribution; associated costs will be reduced in future fiscal years if state contributions are retired sooner than under current law.

As of this writing, FPPA had insufficient time to provide actuarial review of the bill, and Legislative Council Staff had not received a formal response from the FPPA. The fiscal note will be revised as warranted by the receipt of new information from FPPA.

State Appropriations

The bill includes an informational appropriation clause of \$20,000,000 from the General Fund Exempt account to the Department of Treasury, accounting for the additional transfer of insurance premium tax proceeds to the Old Hire Plan Members' Benefit Trust Fund.

Departments Contacted

Fire and Police Pension Association
 Regulatory Agencies
 Treasury

Local Affairs
 Municipalities