FISCAL NOTE

Requested by Legislative Council
02/08/2011

Amendment to: HB 1258

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			$691,600		$764,700	
Appropriations			$250,000			

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			$49,800		$61,708,600	$86,200		$106,849,100

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB1258 closes defined benefit plan and opens defined contribution plan for new employees, but does not include funding source to pay additional costs incurred. Contributions would need to increase additional 12.15%(in addition to HB1134 cost). Amendment 11.0407.02003 does not change fiscal impact.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

HB1258 does not include a funding source to pay additional costs incurred to fund benefits and pay off unfunded liability in the closed TFFR defined benefit plan. It is unknown whether costs would be funded by the state or by employers.

According to actuarial analysis dated 1/19/11 (attached), if contributions for the defined benefit plan were increased on 7/1/12, they would need to increase an additional 12.15%, explained as follows:

The contribution rate necessary to fully fund the current open defined benefit plan over the next 30 years is 26.40%. The contribution rate necessary to fully fund the closed defined benefit plan provided for in HB1258 by the time the last member in the closed defined benefit plan retires is 38.55%. The difference of 12.15% is the additional (shortfall) contributions that would be required based on payroll that is projected to decline. Since there would be fewer members in the closed defined benefit plan, the total contributions required on the remaining members payroll would need to be higher in order to generate approximately the same amount of funds to pay off the unfunded liability.

Estimated total fiscal impact of contribution increases on state, counties, and school districts would be $62.2 million for 2011-13 biennium and $107.7 million for 2013-15 biennium. Estimates are based on assumptions and calculations from TFFR's actuary. Fiscal impact may be more or less depending on actual payroll. If increased cost is not funded or contributions are not increased to pay the additional cost, this cost will continue to increase and roll over to future bienniums for payment. Actuarial analysis does not include the provision allowing current members to elect to transfer to the defined contribution plan, so amendment to remove election has no impact.

Section 6 includes a general fund appropriation of $250,000 for consulting and administrative expenses related to initial implementation of the bill.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The TFFR defined contribution plan provided for under HB1258 is created as of July 1, 2012, and all new teachers and administrators employed after that date would participate in the defined contribution plan. At that time, the number of members in the closed TFFR defined benefit plan would start to decline. The actuary has determined that higher contribution rates on the smaller payroll of the declining membership would be required to raise approximately the same amount of funds to pay off the unfunded liability of the closed plan. If the increased cost is not funded or contributions are not increased to pay the additional cost, and if actuarial assumptions are met, this cost will continue to increase and roll over to future bienniums for payment.

According to actuarial analysis (attached), if statutory contribution rates would be increased as of 7/1/12, the estimated total additional expenditures by state, counties, and school districts would be $62.2 million for 2011-13 biennium and $107.7 million for 2013-15 biennium, detailed as follows:

208 school districts, special education units, vocational centers, and other public education entities employ the majority of TFFR participating members (99.21%). Additional shortfall contributions required total $61,708,600 for 2011-13 and $106,849,100 for 2013-15.

9 counties currently employ 9 county superintendents (0.08%) who are TFFR participating members. Additional shortfall contributions required total $49,800 for 2011-13 and $86,200 for 2013-15.

4 state entities currently employ about 74 TFFR participating members (0.71%). Additional shortfall contributions required total $441,600 for 2011-13 and $764,700 for 2013-15.

2011-13, 2013-15
ND Center for Distance Education $132,480, $229,410
ND Youth Correctional Center $132,480, $229,410
ND School for the Deaf $ 88,320, $152,940
ND School for the Blind $ 88,320, $152,940

Section 6 includes a general fund appropriation of $250,000 for consulting and administrative expenses related to initial implementation of the bill.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

If contributions rates would be increased on 7/1/12, a general fund appropriation would be required for the 4 state entities affected by this bill. See 3b estimated Expenditures.

Section 6 includes a non-recurring general fund appropriation of $250,000 to pay consulting and administrative expenses related to initial implementation of the TFFR defined contribution plan. This includes hiring a consultant to assist the Board in vendor selection, review of investment options, and vendor oversight. It also includes updating business system code and administrative costs incurred in setting up the new plan.

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