



Legislative
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HB 19-1217

FINAL FISCAL NOTE

Drafting Number: LLS 19-0240
Prime Sponsors: Rep. Becker
Sen. Court; Tate

Date: July 31, 2019
Bill Status: Signed into Law
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Bill Topic: PERA LOCAL GOVERNMENT DIVISION MEMBER CONTRIBUTION RATE

Summary of Fiscal Impact:

<input checked="" type="checkbox"/> State Revenue	<input checked="" type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input checked="" type="checkbox"/> Statutory Public Entity

This bill eliminates an employee contribution increase for members of the Public Employees' Retirement Association's local government division, which will increase state income tax revenue and decrease PERA revenue beginning in FY 2019-20.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This fiscal note reflects the enacted bill.

Table 1
State Fiscal Impacts Under HB 19-1217

		FY 2019-20	FY 2020-21	FY 2021-22
Revenue	General Fund	\$233,000	\$483,000	\$667,000
Expenditure		-	-	-
Transfer		-	-	-
TABOR Refund	General Fund	-	-	<i>not estimated</i>

Summary of Legislation

This bill removes an increase in employee contributions for local government division members of the Public Employees' Retirement Association (PERA) that, under current law, is to be phased-in over the next 3 fiscal years until it reaches 2 percent. Table 2 compares local government division member contribution rates under current law to the bill.

Table 2
Local Government Division Employee Contribution Rate Increase
Under Current Law and Under HB 19-1217

	Current Law	HB 19-1217
As of 7/1/19	8.75%	8.00%
As of 7/1/20	9.50%	8.00%
As of 7/1/21	10.00%	8.00%

State Revenue and Expenditures

The bill will increase state income tax collections to the General Fund by an estimated \$233,000 in FY 2019-20, \$483,000 in FY 2020-21, and \$667,000 in FY 2021-22 and subsequent years as a result of the elimination of the local government division employee contribution increase to PERA under current law. Because the bill no longer requires that 2 percent of local government division employee salaries be contributed to PERA, it increases the share of salaries that are not tax deferred. This estimate applies the state income tax rate of 4.63 percent to PERA's revenue reduction under the bill. This revenue is subject to TABOR; however, under the March 2019 Legislative Council Staff forecast, a TABOR surplus is not expected in FY 2019-20 or FY 2020-21. A forecast of state revenue subject to TABOR is not available beyond FY 2020-21.

Local Government

While those employed by PERA's local government division will not pay an increased employee contribution rate to PERA over the next three fiscal years, this is not expected to impact the expenditures of any member local government. Changes to employee benefits can impact employee behavior related to hiring, retention, and retirement; however, the fiscal note has made no assumptions about these impacts.

Statutory Public Entity — Public Employees' Retirement Association

The elimination of the phased-in local government division employee contribution increase will decrease revenue to PERA by an estimated \$5.0 million in FY 2019-20, \$10.4 million in FY 2020-21, and \$14.4 million in FY 2021-22 and subsequent years, as shown in Table 3.

Table 3
PERA Revenue Reduction from the Local Government Division Under HB 19-1217

	FY 2019-20	FY 2020-21	FY 2021-22
Local Government Employee Contribution	(\$5.0 million)	(\$10.4 million)	(\$14.4 million)

The elimination of the local government division employee contribution increase is expected to increase the estimated amortization period necessary to eliminate the unfunded actuarial accrued liability in the local government division trust by four years, as shown in Table 4. This estimate utilizes the December 31, 2017, actuarial valuation of the PERA trusts, and uses PERA's assumed rate of investment return of 7.25 percent. The actual amortization period may differ.

Table 4
PERA Local Government Division Projected Years to Achieve Full Funding

Amortization Period Before SB 18-200	Amortization Period Under Current Law	Amortization Period Under HB 19-1217
54 years	15 years	19 years

In addition, the funded status of the local government division factors into the formula that determines whether an automatic adjustment to contribution rates for members and employers and to the cost of living adjustment for retirees is necessary. This formula calculates the difference between the blended total contribution amount, which is the revenue that PERA Trusts actually receive, and the blended total required contribution, which is the revenue that the PERA Trusts require to stay within full-funding goals. While PERA's audited financials will not be finalized until June, PERA is anticipating the automatic rate adjustment will be triggered July 1, 2019, and applied on July 1, 2020, as a result of the performance of the public markets in 2018. The amount of the rate adjustments may be minimally impacted as a result of the bill.

Effective Date

The bill was signed into law by the Governor and took effect on May 20, 2019.

State and Local Government Contacts

Counties Revenue	Municipalities Special Districts	PERA
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The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit: leg.colorado.gov/fiscalnotes.