



**Colorado
Legislative
Council
Staff**

HB17-1265

**REVISED
FISCAL NOTE**

(replaces fiscal note dated March 27, 2017)

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 17-1042

Date: March 29, 2017

Prime Sponsor(s): Rep. Becker K.; Nordberg
Sen. Priola; Kerr

Bill Status: House Finance

Fiscal Analyst: Erin Reynolds (303-866-4146)

BILL TOPIC: PERA JUDICIAL DIVISION TOTAL EMPLOYER CONTRIBUTION

Fiscal Impact Summary	FY 2017-2018	FY 2018-2019
State Revenue	Potential decrease.	
State Expenditures		\$726,273
General Fund	Minimal workload increase.	704,485
Cash Funds		21,788
TABOR Impact	Potential decrease.	
Appropriation Required: None.		
Future Year Impacts: Ongoing potential revenue decrease; expenditure increase.		

Note: This fiscal note has been updated to more clearly delineate the budgetary differences between AED and SAED contributions, and to show a potential state revenue impact.

Summary of Legislation

The bill makes the following adjustments to the Judicial Division's contribution rates to the Colorado Public Employees' Retirement Association's (PERA's) Amortization Equalization Disbursement (AED), currently set at 2.20 percent, and Supplemental Amortization Equalization Disbursement (SAED), currently set at 1.50 percent:

- calendar year (CY) 2019: AED and SAED to 3.4 percent;
- CY 2020: AED and SAED to 3.8 percent;
- CY 2021: AED and SAED to 4.2 percent;
- CY 2022: AED and SAED to 4.6 percent; and
- CY 2023: AED and SAED to 5.0 percent.

Background

Employer contribution rates to PERA are set in state law. Contributions are deposited into each division's pension trust fund and, minimally, the PERACare Trust Fund. The AED and SAED are additional employer contributions to PERA, established in 2006 and 2008 respectively. The AED is an employer contribution, while the SAED is an amount contributed by employers to be funded by moneys otherwise available for employee salary increases. The AED and SAED

contributions for the State, School, and Denver Public Schools Division have built in gradual annual increases set to expire in 2018. Pursuant to Senate Bill 10-001, the AED and SAED rates have not increased for the Judicial or Local Government Divisions since 2010. Table 1 illustrates the employer contribution rates for all divisions to PERA under current law.

Division	Total Rate	Base Contribution	AED	SAED
State	20.15%	10.15%	5.00%	5.00%
State Troopers	22.85%	12.85%	5.00%	5.00%
School	20.15%	10.15%	4.50%	5.50%
Denver Public Schools	20.15%	10.15%	4.50%	5.50%
Local Government	13.70%	10.00%	2.20%	1.50%
Judicial	17.36%	13.66%	2.20%	1.50%

** Under current law, employer contributions are static and the AED and SAED will no longer increase for the State, School, or Denver Public Schools Division after 2018. The AED and SAED rates for Judicial Division were frozen under SB10-001.*

The Judicial Division of PERA includes only judges, including the Colorado Supreme Court justices, the Court of Appeals judges, district judges, county judges, and magistrates. The Independent Ethics Commission, the Office of the Alternate Defense Counsel, the Office of the Child Protection Ombudsman, the Office of the Child's Representative, the Office of the Respondent Parents' Counsel, and the Office of the State Public Defender are independent agencies within the Judicial Department, and part of the State Division for PERA purposes.

State Revenue

To the extent that the increased SAED contribution reduces taxable income from foregone Judicial Division salary increases, state revenue will decrease.

TABOR Impact

This bill may reduce state General Fund revenue from taxable income, which may reduce the amount of money required to be refunded under TABOR for FY 2018-19. TABOR refunds are paid out of the General Fund. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money available for the General Fund budget in the future during years when the state does not collect money above the TABOR limit.

State Expenditures

In FY 2017-18 only, the bill will minimally increase computer programming workload for the Office of Information Technology (OIT). Beginning January 1, 2019, the bill increases state General Fund and cash fund expenditures for AED contributions from the Judicial Department.

Office of Information Technology. OIT is currently in the process of implementing a new Human Resources Information System (HRIS) for the Department of Personnel and Administration. Because the changes under this bill take effect in calendar year 2019, this change will be built into the new HRIS database in FY 2017-18 and no appropriation is required.

Judicial Department. The fiscal note is based on actual FY 2016-17 personal services costs, which total \$66.4 million and 361.0 FTE. It also includes a 5.65 percent salary increase for FY 2017-18, based on the department's FY 2017-18 budget request, and an ongoing increase for inflation estimated at the Legislative Council Staff's current economic forecast of 2.5 percent in FY 2018-19 applied per year through FY 2023-24. This information is presented as the change from current law rather than the overall change. As the increase takes place at the beginning of the calendar year, the percentage change is shown as two percentages, each representing the rate for half the fiscal year. Based on the fund split for the FY 2017-18 Judicial Department salary increase, the fiscal note assumes that 97 percent of the Judicial Department's salaries are paid with General Fund and the remainder from cash funds within the Judicial Department. Expenditures to cover the AED increase are summarized in Table 2.

	FY 2018-19**	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24***
AED % Change	0% - 1.2%	1.2% - 1.6%	1.6% - 2.0%	2.0% - 2.4%	2.4% - 2.8%	2.8%
AED Increase	\$726,273	\$1,737,003	\$2,289,121	\$2,867,760	\$3,473,900	\$3,834,652

* The fiscal note assumes the AED increase will come 97 percent from General Fund and 3 percent from cash funds.

** FY 2018-19 represents a half-year impact.

*** FY 2023-24 represents the ongoing increase in state expenditures, once the AED rate stabilizes at 5 percent.

SAED contributions are also increased under the bill, which may affect state expenditures. Under current law, SAED payments come from money otherwise available for use but not yet awarded as salary increases. These cost increases become part of the Judicial Department's budget request. When salary increases are provided to employees, but otherwise go to cover SAED costs, these state expenditures would have occurred anyway. However, when salary increases are not provided to employees, the SAED payments may be made from state expenditures that would *not* have occurred anyway. To the extent this latter trend occurs, the SAED payments in the Judicial Division may require a further increase in state expenditures from the General Fund and other cash funds. The costs to cover the SAED increase are summarized in Table 3.

	FY 2018-19*	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
SAED %	0% - 1.9%	1.9% - 2.3%	2.3% - 2.7%	2.7% - 3.1%	3.1% - 3.5%	3.5%
SAED Increase	1,149,932	2,605,504	3,179,335	3,780,229	4,409,181	4,793,314

* FY 2018-19 represents a half-year impact.

Statutory Public Entity Impact

The bill will increase revenue to PERA by the amounts shown in Table 2 from FY 2018-19 through FY 2023-24. By increasing the AED and SAED contribution from the Judicial Division to PERA, the unfunded liability for the Judicial Division will decrease. According to PERA's

actuaries, using the 2015 actuarial valuation and the November 2016 changes to actuarial assumptions — which reduced the rate of return to 7.25 percent and updated mortality tables to reflect longer lifespans — the amortization period is reduced from "infinite" to approximately 55 years.

Effective Date

The bill takes effect August 9, 2017, if the General Assembly adjourns on May 10, 2017, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Information Technology
Personnel and Administration

Judicial

PERA