LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
54th Legislature, 2nd Session, 2020

Bill Number HB46 **Sponsor** Salazar

Tracking Number .216104.1SA **Committee Referrals** HLVMC/HAFC

Short Title Changes to Educational Retirement Fund

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FOR THE INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

BILL SUMMARY

Synopsis of Bill

House Bill 46 (HB46) would create a new section of the Tax Administration Act to require an annual distribution of gross receipts tax revenue to the educational retirement fund; amend the Educational Retirement Act to require an increase in payments employers make to the educational retirement fund for participants in the alternative retirement plan when there is an increase in the employer contribution rate for the Educational Retirement Board's (ERB) defined benefit pension plan; and transfers $50 million plus and amount equal to one percent of ERB member's salaries as of June 30, 2019 plus the amount included in the General Appropriation Act of 2019 for salary increases for ERB's members.

FISCAL IMPACT

HB46 includes a nonrecurring fund transfer from the general fund to the educational retirement fund in FY21. Under HB46 the transfer is for $50 million, plus an amount equivalent to 1 percent of ERB members' salaries plus the amount included in the General Appropriation Act of 2019 to increase salaries of ERB members. The Legislative Finance Committee (LFC) estimates the total nonrecurring transfer at $82.9 million.

HB46 would reduce the amount of general fund revenue available for annual appropriation by the Legislature. LFC estimates recurring general fund revenue would be lower by $67.1 million in FY22 and $98.7 million in FY23 and subsequent fiscal years. LFC notes that distributions to the educational retirement fund will be on annual salaries of active ERB employees, which would increase the cost of the distributions over time. In addition, HB46 would require monthly transfers of $4,167,000 in FY23, which would further reduce general fund revenue in that year. Transfers in FY23 would total approximately $50 million.

Analysis from ERB indicates the bill would reduce the time period needed to pay down the plan's unfunded liability from the current 47 years, to 30 years with the enactment of HB46.

SUBSTANTIVE ISSUES

Laws 2019, Chapter 258 (House Bill 360), made changes to the Educational Retirement Act to improve the long term sustainability of the pension plan offered to public school, college, university, and other educational employees. Initially, that legislation would have increased employer contribution rates by 3 percentage points – from 13.9 percent of salary to 16.9 percent of salary. However, the enacted bill only raised contribution rates by 0.25 percentage points – from 13.9 percent of salary to 14.15 percent of salary. By comparison, employers who offer pension plan through the Public Employees Retirement Association pay a higher rate – 17.24 percent of salary, leading to a perceived inequity in public employee retirement plans in New Mexico.

HB46 would have the effect of simulating an increase to employer contributions of about 1 percentage point for FY20 (although this transfer would technically be on the first day FY21), 2.04 percentage points for FY21, and 3 percentage points in FY23 and subsequent fiscal years. Rather than increase funding through employer contributions, which is the typical method of increasing funding for ERB, the educational retirement fund would receive additional revenue directly from the tax administration suspense fund.

Providing the equivalent of contribution increases through a direct distribution of gross receipts tax revenue means a contribution increase has a greater impact on the general fund than by providing for an employer-paid contribution increase. A school district or charter school will often pay the cost of an employee's benefits from the funding source that is used to pay their salary. For example, in FY19 school districts and charter schools paid $124.6 million in salaries and $49.8 million in employee benefits from their food service funds. These expenses were funded largely by federal grants from the U.S. Department of Agriculture, with additional revenue from state grants and fees paid by students and teachers for meals. Were employer contributions to ERB to increase, benefits payments from this fund would likely increase. But diverting gross receipts tax revenue in lieu or raising employer contributions places those costs on the general fund, rather than on the other revenue sources.

Typically, general fund appropriations for salary or benefits increases include funding only for positions paid with general fund dollars. HB46 would have the effect of shifting the benefits costs associated with positions paid with non-general fund dollars onto the general fund.

SOURCES OF INFORMATION

- LESC Files
- Legislative Finance Committee (LFC)
- Educational Retirement Board (ERB)

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