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## FISCAL IMPACT REPORT

**SPONSOR** Rehm **ORIGINAL DATE** 02/12/15  
**LAST UPDATED** 02/18/15 **HB** 232

**SHORT TITLE** Law Enforcement Fund for Police Retirement **SB** \_\_\_\_\_

**ANALYST** Hanika-Ortiz

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
	(12,000.0)	(2,575.0)		General Fund
	9,450.0	0.0		PERA Fund
	2,550.0	2,575.0		Local Law Enforcement Protection

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)  
 Public Employees Retirement Association (PERA)  
 New Mexico Municipal League (NMML)

### SUMMARY

#### Synopsis of Bill

House Bill 23 amends Section 29-13-4, 1978 NMSA to increase distributions from the law enforcement protection fund (LEPF) to municipal police and county sheriff's departments by 50 percent, and university police departments by 47 percent.

The bill increases the per commissioned officer distribution to a tribal police department by 50 percent per officer, and the per certified law enforcement officer distribution to municipal police and county sheriff's departments by 50 percent per law enforcement officer.

The bill includes a temporary provision that transfers the balance in the LEPF for FY16, after the required distributions and \$100 thousand set-aside, to PERA instead of the General Fund to reduce the unfunded liability of the municipal police division within the PERA Total Fund.

HB 232 contains an emergency cause.

### **FISCAL IMPLICATIONS**

The bill increases distributions to police departments from the LEPF. The distribution change would result in an estimated increase to law enforcement divisions of \$2.6 million in FY16 and grow at 10 percent annually, according to DFA. The bill requests an increase of 50 percent over the last distribution change in 2000 which may be larger than what is needed to offset inflation.

The bill also transfers balances in the LEPF for FY16 to PERA's employer's accumulation fund to help reduce the unfunded liability apportioned to its municipal police division.

DFA reports the LEPF receives 10 percent of insurance premiums tax revenue, and any unused balance to the fund reverts to the General Fund. In FY14, the LEPF reverted \$3.9 million to the General Fund after receiving transfers of \$9.2 million from the Office of the Superintendent of Insurance. Based on insurance forecasts, if no change to the distribution formula occurred, an estimated \$12 million would be transferred to the General Fund in FY16.

DFA further reported that given the uncertainty of the effects of recent declines in prices for the oil and natural gas industry, and the state's potentially weakened revenue situation as a result, the timeliness of eliminating a reversion to the General Fund for FY16 may be especially harmful. In effect, this bill would reduce available "new money" for appropriation in FY16 by \$12 million.

The PERA Total Fund returned 17.03 percent for FY14 and generated \$2.1 billion in investment gain (net of fees). SB 27 in 2013, which put the PERA Fund including all five of its divisions on a sustainable path, is projected to be more than 100 percent funded within the required 30 years.

PERA estimates the transfer to be \$5 million which decreases the UAAL for the division from \$491 million to \$486 million, and increases the funded ratio from 78.3 percent to 78.5 percent.

### **SIGNIFICANT ISSUES**

The Affordable Care Act is anticipated to significantly increase health insurance premium revenue to the state. As a result of the funding formula for the LEPF, transfers to the fund will also significantly increase. An increase in the distribution formula would reduce some of this new money that would otherwise revert to the General Fund.

The PERA Fund is a cost-sharing, multiple employer defined benefit pension plan. The PERA Total Fund has five divisions, including State General, State Police/Hazardous Duty, Municipal General, Municipal Police, and Municipal Fire. All assets accumulated for the payment of benefits may be used to pay benefits or give refunds to any of the plan members or beneficiaries.

### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

The Law Enforcement Protection Fund will remain as currently provided.

AHO/aml