FISCAL IMPACT REPORT

SPONSOR Salazar
ORIGINAL DATE 1/29/2020
LAST UPDATED 1/29/2020
HB 46

SHORT TITLE Changes to Educational Retirement Fund
SB

ANALYST Jorgensen

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
	$50,000.0	Nonrecurring	General Fund
	$32,900.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue				Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24		
$0	($67,116.0)	($98,700.0)	($98,700.0)	Recurring	General Fund
$0	$0	($50,004.0)	$0	Nonrecurring	General Fund
$0	$67,116.0	$98,700.0	$98,700.0	Recurring	Educational Retirement
$0	$0	$50,004.0	$0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Education Retirement Board (ERB)
Taxation and Revenue Department (TRD)
University of New Mexico (UNM)

SUMMARY

Synopsis of Bill

House Bill 46 (HB46) makes a distribution from receipts attributable to gross receipts tax to the education retirement fund. Beginning in FY22, the equivalent of 2.04 percent of salaries of ERB-covered employees would be distributed from gross receipts tax revenue to the educational retirement fund. In FY23, the equivalent of 3 percent of salaries of ERB-covered employees would be distributed for the same purpose. For additional detail, see fiscal implications.

In addition to recurring distributions made from gross receipts tax revenue, the bill contains two nonrecurring appropriations. In FY21, $50 million and the equivalent of 1 percent of salaries for ERB-covered employees, $32.9 million, would be appropriated from the general fund to the educational retirement fund.

Lastly, in FY23, the bill provides for a monthly distribution of $4.167 million, a total of $50 million, from gross receipts tax revenue.

FISCAL IMPLICATIONS

The appropriation table shows a $50 million appropriation made from the general fund to the educational retirement fund in FY21. In addition to the $50 million, the bill also appropriates "an amount equivalent to one percent of the annual salaries of all members employed by a local administrative unit and participants in the alternative retirement plan." ERB estimates FY21 total payroll will be $3.3 billion so the cost of a 1 percent increase is approximately $32.9 million.

The revenue table reflects the implementation of a recurring distribution form gross receipts tax revenue to the educational retirement fund. The bill distributes gross receipts tax revenue from the tax administration suspense fund prior to it being transferred to the general fund resulting in negative revenue to the general fund. The bill creates a distribution of 0.17 percent of the annual salaries of ERB-covered workers employed during the prior fiscal year. Because the distribution is made monthly, the total amount distributed from gross receipts tax revenue is the equivalent of 0.17 percent times 12 months, or 2.04 percent of educational employee salaries. In FY22 this 2.04 percent will cost approximately $67.1 million. In FY23, the monthly proportion of annual payroll increases to 0.25 percent, or 3 percent of annual ERB salaries per year. This represents a $98.7 million recurring cost to the general fund.

In FY23, a monthly distribution of $4.167 million is made from gross receipts tax revenue to the educational retirement fund. This results in a total loss of general fund revenue of $50 million for the year.

Because distributions made under the provisions of HB46 are based on salaries in the prior fiscal year, increases in employment or raises given to ERB-covered employers will increase the costs of this legislation.

SIGNIFICANT ISSUES

House Bill 360, enacted in the 2019 legislative session, made several changes to the Educational Retirement Act, including requiring contributions from certain return-to-work employees and creating a new benefit tier that greatly reduces the value of the pension for short-time employees. The reductions in benefits and stricter return-to-work provisions improved the funding outlook for the plan. HB360 initially included a 3 percent employer contribution increase. ERB received a 0.25 percent employer increase.

ERB employers currently contribute 14.15 percent of covered salaries. Public Employees Retirement Association (PERA) affiliated employers pay 17.24 percent of salary for regular retirement.

PERFORMANCE IMPLICATIONS

ERB analysis shows that enactment of the provisions of HB46 will allow the ERB fund to reach 100 percent funded status, meaning assets are sufficient to pay for all future liabilities, by 2049.

TECHNICAL ISSUES

On page 3, lines 4-5, the bill contains language stating "from the net receipts attributable to the gross receipts tax distributable to the general fund." Should there be any other distribution of net gross receipts tax revenue not distributable to the general fund, this bill will require a calculation be made. Striking "distributable to the general fund" would resolve this issue.

CJ/rl/al