F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 2/5/2020
SPONSOR Candelaria **LAST UPDATED** 2/13/2020 **HB**

SHORT TITLE Contributions to Judicial Retirements **SB** 123/aSPAC/aSFC

ANALYST Jorgensen

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
	$2,733.4	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22		
	($2,375.2)	($2,375.2)	Recurring	Judicial Retirement
	($347.6)	($347.6)	Recurring	Magistrate Retirement
	$2,722.8	$2,722.8	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$2,752.8	$2,752.8	$5,505.6	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB121, SB122

SOURCES OF INFORMATION
LFC Files

Responses Received From
Administrative Office of the Courts (AOC)
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee Amendment to Senate Bill 123 adds an effective date of July 1, 2020.

Synopsis of SPAC Amendment

The Senate Public Affairs Committee Amendment to Senate Bill 123 reduces the employer contribution to members of the judicial retirement fund from 30 percent to 29.8 percent and reduces employer contributions to members of the magistrate retirement fund from 22 percent to 21.7 percent. Additionally, the amendment reduces an appropriation made to the Department of Finance and Administration to pay increased judicial employer contributions from $3 million to $2.73 million.

Synopsis of Original Bill

Senate Bill 123 (SB123) redirects revenue raised from docket fees from the judicial and magistrate retirement funds to the general fund and increases employer contributions to the fund by an amount approximating the revenue transfer. SB123 increases employer contributions for the judicial retirement fund from 15 percent of salary to 30 percent of salary and increases contributions for magistrate retirement from 15 percent to 22 percent.

SB123 contains an appropriation of $3 million from the general fund to the Administrative Office of the Courts (AOC) to pay increased employer retirement contributions in FY21 and subsequent fiscal years.

There is no effective date on this bill. It is assumed the effective date is 90 days following adjournment of the legislature.

FISCAL IMPLICATIONS

The appropriation table reflects the recurring appropriation to AOC to pay increased costs of employer contribution rate increases in FY21. Unexpended or unencumbered balances from this appropriation shall not revert to the general fund

The revenue table shows the effect of fee revenue being redirected from the retirement funds to the general fund. The increase to the general fund equals the reductions to the magistrate and judicial retirement funds.

The estimated additional operating budget impact table shows the increase required in the budgets of the courts as a result of enactment of SB123. However, the loss would be offset by the redirection of docket fees from the retirement funds to the general fund. PERA states that in FY19, fees generated $347.6 thousand in revenue for the magistrate retirement fund and $2.4 million for the judicial retirement fund.

The table below shows how the transfer of fee revenue from the retirement funds to the general fund offsets the majority of the loss to the general fund as a result of increasing employer contributions. In FY19, fees generated $2.7 million for the two retirement funds. LFC estimates the annual cost of the employer contribution increases to be $2.8 million. The employer contribution increases will cost $30 thousand more than will be replaced by fee revenue.

Revenue Offset by Retirement Plan

	FY19 Fee Revenue Collected	Employer Increase Amount	Difference
Judicial	$2,375.2	$2,343.3	$ (31.9)
Magistrate	$347.6	$409.5	$61.9
Total	**$2,722.8**	**$2,752.8**	**$30.0**

The recurring cost to the general fund of enactment of SB123 is $30 thousand based on FY19 revenue generation. However, volatility in docket fee revenue may result in gains or losses to general fund revenue.

SIGNIFICANT ISSUES

For the year ending June 30, 2019, the contribution requirement necessary to fund the benefits afforded under the Magistrate Retirement Act is 42.4 percent of magistrate payroll, which exceeds statutory contributions by 11.1 percent of payroll. The magistrate retirement fund is currently funded at 54.3 percent with an infinite funding period. The contribution requirement necessary to fund the benefits afforded under the Judicial Retirement Act is 48.1 percent of judicial payroll, which exceeds statutory contributions by 7.8 percent of payroll. The judicial retirement fund is currently funded at 55.1 percent with a funding period of 104 years.

Historically, PERA's actuaries have indicated docket fees are poorly correlated to judicial and magistrate payrolls exist. PERA's actuaries have consistently recommended that all employer contributions for both the judicial and magistrate retirement funds be related to payroll. SB123 addresses this recommendation and is essential to the long-term health of these retirement funds.

PERA notes:

> Correlating employer contributions to judicial and magistrate payroll is a positive step in meeting the long-term obligations of the retirement funds. SB123's proposed statutory contribution rates are insufficient to meet the required statutory contributions necessary to meet the obligations of the funds. The basic funding objective of the retirement funds is to avoid transferring costs of statutory obligations between generations of taxpayers. This objective is met if the funding sources are sufficient to 1) fund costs allocated to the current year on account of service earned by the judiciary (Normal Cost); and 2) fund over a 30-year period the costs of prior years of service credit earned by the judiciary (Unfunded Actuarial Accrued Liability) or (UAAL). For example, SB123 increases the employer contribution to the Judicial Retirement Fund for each judge covered by the Act from 15 percent to 30 percent of salary. While this amount combined with the employee contribution of 10.5 percent is sufficient to fund the Normal Cost of 20.3 percent, it will not meet the total statutory contribution of 48.1 percent needed to fund the benefit.
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> Likewise, SB123 increases the employer contribution to the Magistrate Retirement Fund for each magistrate covered by the act from 15 percent to 22 percent of salary. While this

amount combined with the employee contribution of 10.5 percent is sufficient to fund the Normal Cost of 15.9 percent, it is insufficient to meet the total statutory contribution of 42.4 percent necessary to fund the benefit.

Both the judicial and magistrate retirement pension funds are severely underfunded resulting mostly from benefits already accrued. Reform efforts in 2014 lowered pension multipliers from 3.75 percent for current judges to 3.5 percent and 3.25 percent for judges taking the bench on or after July 1, 2014. For magistrate judges, the 2014 reform reduced the pension multiplier for active judges from 5 percent to 3.5 percent and 3 percent for magistrates taking the bench on or after July 1, 2014. The reform also suspended the COLA for judges and magistrates for two of every three years as long as the pension is under 100 percent funded.

The rich retirement benefit offered to judges and magistrates was never paid for resulting in the normal cost of the pension plan, or the amount the pension contribution must equal to pay for the benefit provided, being less than the amount needed to pay the unfunded liability. For judges, the normal cost of the pension is 20.3 percent. The additional amount needed to pay down the unfunded liability over the next 30 years is 27 percent. For magistrates, the normal cost of the current plan is 16 percent and the cost to pay off the unfunded liability is an additional 26 percent. By contrast, PERA’s state general plan that covers state workers has a 16 percent normal cost and needs an additional 10.4 percent to pay of the unfunded liability over 30 years.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 121 as amended provides a $10 million appropriation to the judicial and magistrate retirement funds.

SB123 relates to Senate Bill 122 which makes distributions to the magistrate and judicial retirement plans pursuant to the Oil and Gas Proceeds and Pass-Through Entity Withholding Tax Act.

CJ/rl/al/rl