

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 170** HLS 23RS 427

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

| | | |
|---|---------|--------------------------------|
| Date: April 24, 2023 | 2:02 PM | Author: TURNER |
| Dept./Agy.: Teachers' Retirement System of La. | | Analyst: Deborah Vivien |
| Subject: Unfunded accrued liability | | |

FUNDS/FUNDING EG -\$444,300,000 GF RV See Note Page 1 of 1
Dedicates portion of 0.45% state sales tax to payment of the Teachers' Retirement System of La. initial unfunded accrued liability

Proposed law creates the Louisiana Preservation Fund (LPF) containing all state sales tax revenue generated by the 0.45% temporary tax in FY 24 and FY 25, except those dedicated to the Transportation Trust Fund - Construction Subfund from vehicle sales tax. In FY 24, the funds will be applied monthly to the Initial Unfunded Accrued Liability (IUAL) by appropriation in the amount of the employer contribution with the remainder (less \$18 M) applied to the Original Amortization Base (OAB) at the end of the fiscal year. In FY 25, the first 25% of each deposit to the fund will be deposited to the Highway Subfund (created in the bill) for DOTD infrastructure. The 75% remaining will be deposited to the IUAL Subfund (created in the bill) to pay IUAL similar to the FY 24 payments. If the debt is paid before FY 26, surplus payments will flow to the SGF.

Proposed law directs the Public Retirement Systems Actuarial Committee (PERSAC) to meet prior to 6/30/23 to adopt a new contribution rate for FY 24 that will consider these payments.

| EXPENDITURES | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 5 -YEAR TOTAL |
|---------------------|-----------------|-----------------|----------------|----------------|----------------|------------------------|
| State Gen. Fd. | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | INCREASE | INCREASE | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| Annual Total | | | | | | |
| REVENUES | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 5 -YEAR TOTAL |
| State Gen. Fd. | (\$444,300,000) | (\$438,700,000) | \$0 | \$0 | \$0 | (\$883,000,000) |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$444,300,000 | \$438,700,000 | \$0 | \$0 | \$0 | \$883,000,000 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

EXPENDITURE EXPLANATION

According to the Legislative Auditor, the bill will accelerate the elimination of planned agency expenditures related to the IUAL debt after the infusion of payments from the proceeds of the 0.45% sales tax in FY 24 (\$444.3 M) and FY 25 (\$438.7 M). This analysis assumes the re-amortization of the TSRL IUAL debt in FY 25 occurs. Projected reduced expenditures from the bill for K-12 are: \$153 M in FY 24 and \$105.4 M in FY 25; and for HIED: \$57.1 M in FY 24 and \$39.4 M in FY 25, resulting in a reduction of approximately 4% of payroll that will no longer be paid against the IUAL for those years. It is assumed that a similar increase in appropriations from the IUAL Subfund to TRSL will be required. In FY 26, it is estimated that the employers will be required to make a payment of approximately \$76 M (K-12: \$55 M; HIED: \$21 M), which is less than the currently projected \$144 M total regular payment and will retire the debt. Elimination of the IUAL debt will extend the savings indefinitely.

The bill provides for an additional appropriation of \$109.7 M (the first 25% of each deposit) from the Highway Subfund to DOTD during FY 25 for highway and bridge preservation projects, though the timing is not specified in the bill.

Though sales tax is due monthly, the actual variation in monthly remittances could alter these results somewhat. The extent and timing of the impacts to the agencies would be in accordance with budgeting decisions. Apparently, regular payments will resume if sales tax collections do not materialize as expected. The bill states that the sales tax funding may not be used to fund cost of living increases for TSRL benefits.

REVENUE EXPLANATION

The bill will reduce state general fund revenue in the amounts expected to be generated by 0.45% state sales tax in FY 24 and FY 25, \$444.3 M and \$438.7 M respectively, while increasing revenues to the Louisiana Preservation Fund and related Subfunds created by the bill. These amounts do not include the vehicle sales tax dedicated to the Construction Subfund of the Transportation Trust Fund, which is not impacted by this bill.

Once the original amortization base, as defined in R.S. 11:102.2, is liquidated, deposits into the fund shall cease and remaining monies generated will revert to the state general fund.

These figures are based on forecast adopted at the December 15, 2022, meeting of the Revenue Estimating Conference. Should the sales tax official forecasts for FY 24 and FY 25 change, these estimated impacts would change in a corresponding manner.

Senate
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Alan M. Boxberger
Alan M. Boxberger
Interim Legislative Fiscal Officer