

## LEGISLATIVE FISCAL OFFICE Fiscal Note

Fiscal Note On: **HB 5** HLS 243ES

Bill Text Version: ORIGINAL

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.: REVISED

Analyst: Julie Silva

**Date:** November 10, 2024 6:40 PM

Author: BACALA

Dept./Agy.: Education

TEACHERS/SALARY

**Subject:** Salary increases for teachers and other school employees

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Requires school systems to provide a salary increase for teachers and other school employees using savings attributable to the state's payment of certain unfunded accrued liability of the Teachers' Retirement System of Louisiana (Item #2)

OR SEE FISC NOTE LF EX See Note

Proposed legislation codifies provisions in proposed constitutional amendment (currently under consideration by the legislature as HB 7) and directs public school systems to provide permanent pay increases, and related benefits, for certificiated and noncertificated employees using any savings realized as a result of the transfer of certain fund balances to the Teacher's Retirement System of Louisiana (TRSL) for payment of the system's total unfunded accrued liability (IUAL/UAL).

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	\$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Annual Total	\$0					\$0
REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Annual Total	\$0					\$0

### **EXPENDITURE EXPLANATION**

The proposed law is anticipated to impact SGF and local fund expenditures, though impacts to local funds will vary by school system. The proposed statutory changes in this instrument codify provisions in the companion proposed constitutional amendment directing public school systems to use any savings realized as a result of payments made toward TRSL's UAL to provide salary increases for certificated and noncertificated school personnel, beginning in the 2025-2026 school year. As provided in proposed legislation, "public school systems" means any city, parish, or other local public school board, any charter school, or any other elementary or secondary school governing authority that participates in TRSL.

The proposed constitutional amendment eliminates the Louisiana Quality Education Trust Fund (Permanent Fund), the Louisiana Education Quality Support Fund (Support Fund), and the Education Excellence Fund (EEF) and directs the Treasury to transfer the remaining balances in these funds to TRSL for payment of the system's unfunded accrued liability (UAL). The FY 25 beginning balances of the Permanent Fund (\$1.45 B), the Support Fund (\$36 M), and the EEF (\$482 M) will result in a pay down of an estimated \$1.96 B of the total UAL. Local education agencies are expected to see a decrease in local fund expenditures resulting from the transfer of these fund balances to TRSL.

The current UAL balance is \$8.1 B, with an expected FY 25 employer contribution payment of \$1.1 B. Transfer of the aforementioned fund balances will decrease the UAL balance to \$6.1 B (\$8.1 B - \$1.96 B), lowering the FY 25 expected employer contribution payment to \$817 M. This represents a total decrease of \$1.96 B in the UAL balance and a \$283 M (\$1.1 B - \$817 M) reduction in employer contribution payments.

Approximately 73% of TRSL's membership is in the K-12 plan. The impact of the \$283 M reduction is assumed to be distributed proportionately; therefore, the employer contribution for the K-12 plan is projected to decrease by \$207 M ( $$283 \text{ M} \times 73\%$ ), assumed to be a combination of Local Funds and distributions from the MFP.

### **Continued on Page 2**

### **REVENUE EXPLANATION**

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Proposed legislation, in conjunction with proposed constitutional amendment, is anticipated to result in a net zero impact to local fund revenues as any dollars saved due to the reduction of TRSL IUAL payments will instead be expended on certificated and noncertificated employee pay raises.

	\$500,000 Annual Tax or Fee Change {S & H}	6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	Patrice Thomas Deputy Fiscal Officer
13.5.1 >= 9	\$100,000 Annual Fiscal Cost {S & H}	$6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}$	Johns Mamor



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#### **CONTINUED EXPLANATION from page one:**

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Proposed law stipulates that the net savings of each school system be used to provide pay raises of at least \$2,000 for certificated personnel and at least \$1,000 for noncertificated personnel, plus any related benefits, beginning with the 2025 -2026 school year. Personnel, as defined in proposed legislation, means any person employed in a position for which the state provided a one-time stipend in Act 4 of the 2024 RS. Proposed legislation additionally specifies that if the amount of the net savings realized by a school system is insufficient to fully fund increases in the amounts stated the school system is not required to provide increases and benefits in excess of the net savings amount, unless the legislature appropriates monies for this purpose. To the extent the legislature opts to appropriate additional dollars to school systems unable to provide the full \$2,000 and \$1,000 pay raises and related benefits costs, an increase in SGF expenditures is anticipated.

It is expected that any resultant savings to local school districts will vary, and therefore, potential increases in pay will also vary based on location. The Louisiana Department of Education (LDOE), in conjunction with TRSL, developed a series of simulations to reflect potential shifts in the valuation of the TRSL UAL at the time of payoff. Based on these, a range of between four to 43 participant systems may not realize savings sufficient to fund pay raises at the mandated amounts, with the total cost for such shortage ranging from \$70,000 to \$6.2 M.

LDOE anticipates the FY 26 rate for K-12 retirement contributions, under current circumstances, will be 20.95%, a reduction of .56% from FY 25. Assuming the proposed constitutional amendment is adopted, LDOE and TRSL expect an additional reduction of 4.79%, bringing 2025-2026 contribution rates to 16.16%. Based on the simulations provided by LDOE, the following information summarizes anticipated costs to provide the pay raises and related benefits outlined in proposed legislation.

Original Pay Stipend Cost (FY 25) with TRSL Employer Contribution of 21.51% \$198,954,714

Revised Pay Increase Cost with TRSL Employer Contribution of 16.16% \$192,343,146
TRSL Participants (Local Responsibility) \$177,763,188
Non-TRSL Participants (State Responsibility) \$14,579,958

LDOE reports there may also be marginal impacts to MFP expenditures due to the change in TRSL contribution rates. A series of prior year pay raises, provided by the legislature, are included within the formula. These raises also include payments for applicable retirement costs, which should also realize an actuarial rate reduction. This would result in an estimated \$10 M reduction in MFP Level 4 costs.

<u>Senate</u> 13.5.1 >=	<u>Dual Referral Rules</u> \$100,000 Annual Fiscal Cost {S & H}	House $6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}$	Some Manor
	\$500,000 Annual Tax or Fee Change {S & H}	6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	Patrice Thomas Deputy Fiscal Officer