HOUSE
RESEARCH
ORGANIZATION bill digest | 4/30/2019 | HB 2763 (2nd reading)
Flynn, et al.
(CSHB 2763 by Stephenson)

SUBJECT: Modifying the Galveston police pension fund

COMMITTEE: Pensions, Investments, and Financial Services — committee substitute recommended

VOTE: 11 ayes — Murphy, Vo, Capriglione, Flynn, Gervin-Hawkins, Gutierrez, Lambert, Leach, Longoria, Stephenson, Wu

0 nays

WITNESSES: For — James D. Yarbrough, City of Galveston; Geoff Gainer, Galveston Police Employee's Retirement (*Registered, but did not testify*: Craig Brown, Daniel J. Buckley, Donald S. Glywasky, and Brian Maxwell, City of Galveston)

Against — None

BACKGROUND: Vernon's Texas Civil Statutes art. 6243p governs the police pension fund for a municipality that has a population of more than 50,000 but less than 400,000, operates under a city manager form of government, and has never elected to join, adopted, or been required to operate under a public retirement system created by a state statute applicable to municipal police officers (Galveston).

DIGEST: CSHB 2763 would increase member contributions, revise the process for modifying benefits, and make other changes to a municipality's police pension fund governed by Vernon's Texas Civil Statutes art. 6243p.

Contributions. Subject to modification by the board of trustees, each member of the police pension fund would be required to contribute to the fund. The municipality would be authorized to deduct 12 percent of the member's monthly wages as contributions to the fund for service rendered after August 31, 2019.

Subject to modification by the board, and not later than the 15th business day after the first day of the municipality's fiscal year, the municipality would be required to contribute to the fund 18 percent of payroll based on authorized positions, as determined by the municipality.

No later than December 31 of the year following the year in which the municipality made such a contribution, the municipality would be required to calculate the difference, if any, between the amount of the municipality's actual payroll for the applicable fiscal year and the amount of payroll on which its contribution was based. The municipality then would have to contribute to the fund an amount equal to the municipality's contribution rate multiplied by the amount of difference.

Liability. The municipality would be required to pay the pension fund money in a sufficient amount to offset any negative financial impact to the fund, as determined by the actuary for the fund, caused by a unilateral action taken by the municipality, including a reduction by the municipality in the number of the municipality's police officers.

The actuary for the fund would be required to annually determine whether a reduction in the number of municipal police officers by a municipality had a negative financial impact on the fund.

If the actuary determined a negative financial impact to the fund had occurred, the municipality would be required to provide additional funding to the fund in the time frame prescribed by the bill for making contribution increases and continue to provide funding until the negative impact of the action was eliminated as determined by the actuary for the fund.

Actuarial limits. CSHB 2763 would establish that the rate of contributions to the pension fund could not be reduced or eliminated, a new monetary benefit payable by the pension fund could not be established, and the amount of a monetary benefit from the fund could not be increased, if, as a result of the particular action, the time required to amortize the unfunded actuarial liabilities of the pension fund would be increased to a period that exceeded 25 years, as determined by an actuarial valuation.

The assumptions and methods adopted by the board and used to prepare an actuarial valuation of the pension fund's assets and liabilities would have to be consistent with generally accepted actuarial standards.

Any assumed rate of return adopted by the board of trustees would have to be reviewed as part of each actuarial valuation conducted on or after January 1, 2020.

The board would be required to adopt an assumed rate of return of 7 percent to be used in the preparation of any actuarial valuation conducted on or after September 1, 2019, and before January 1, 2020. This section would expire January 2, 2020.

Benefits modification. Subject to actuarial and contribution requirements specified in the bill, the board, with the approval of at least six members, could modify:

- provided benefits, including the multiplier by which a pension benefit amount was calculated;
- future membership qualifications;
- eligibility requirements for pensions or benefits, including the age at which a member would be eligible to retire; or
- members' and the municipality's contribution rates, except that the board could not modify the contribution rates set by the bill before January 1, 2025.

If on or after January 1, 2025, the fund's most recent actuarial valuation recommended an actuarially determined contribution rate that exceeded the aggregate contribution rates provided by the members and municipality, the board of trustees would be required to calculate the difference between the actuarially determined contribution rate and the aggregate contribution rates and, by rule, increase the contribution rates by 50 percent of the difference. The bill would provide when contribution rates could take effect.

The bill would raise from four to five the number of board members required to approve refunds to members who left service before qualifying for a pension.

Actions authorized under this section could not be made unless first reviewed by a qualified actuary selected by at least six, rather than four, board members. A fellow of the Conference of Actuaries in Public Practice would no longer be a qualified actuary to review benefit modifications.

Composition of board. The bill would increase the number of trustees on the fund's board from seven to eight. The board would be composed of:

- the president of the municipality's police association or the president's designee, to serve during the president's term of office;
- two trustees designated by the city manager;
- two trustees designated by the city council, each to serve a staggered three-year term; and
- three trustees elected by the members of the fund, each to serve a staggered three-year term.

Qualifications of trustees. To be designated or elected a trustee of the fund, a person would be required to have:

- demonstrated financial, accounting, business, investment, budgeting, or actuarial experience;
- a bachelor's degree from an accredited institution of higher education; or
- been vetted to verify that the person was capable of performing the duties and responsibilities of a trustee and determined qualified for designation or election, as appropriate, to the board by the president of the municipality's police association or the president's designee and one of the trustees designated by the city manager.

A person would be presumed to have demonstrated financial, accounting, business, investment, budgeting, or actuarial experience if the person had at least five years of full-time employment experience working in a relevant field.

A person would not be required to reside in the municipality to be designated or elected a trustee.

Trustee training. A person who was appointed or elected to the board of trustees would be required to complete a training program. The program would have to provide the trustee with information regarding:

- the law governing the pension fund's operations;
- the programs, functions, rules, and budget of the fund;
- the scope of and limitations on the rulemaking authority of the board;
- the results of the most recent actuarial valuation of the fund; and
- the requirements of laws relating to open meetings, public information, administrative procedure, disclosing conflicts of interest; and
- other laws applicable to a trustee in performing the trustee's duties, including the board's fiduciary duty.

Board actions. As soon as practicable after its effective date, the bill would require the city manager and city council to designate trustees for the board of trustees, whose terms would begin November 1, 2019. It also would require the members of the pension fund to elect three trustees whose terms would begin November 1, 2019.

Notwithstanding the normal rules for trustee terms, the bill would require the city manager and the city council to designate one of the initial trustees to serve a two-year term and the existing board to designate one of the initial trustee positions elected by the members to serve a one-year term and another to serve a two-year term.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2019.

NOTES: According to the Legislative Budget Board's actuarial impact statement, the bill would result in the amortization period for the fund to fall from 42 to 30 years.