

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Third Reader

House Bill 1018

(Delegate B. Barnes)(Chair, Joint Committee on Pensions)

Appropriations

Budget and Taxation

Pensions - Administrative and Operational Expenses - Limitation and Calculation

This bill alters the methodology for calculating the spending cap for the State Retirement Agency (SRA), and it temporarily raises the cap for four years, through fiscal 2022. **The bill takes effect July 1, 2018, but the temporary increase in the spending cap does not take effect if legislation related to compensation for SRA’s Investment Division (Senate Bill 899/House Bill 1012) is enacted.**

Fiscal Summary

State Effect: The bill conforms the calculation of the expense cap to current practice. However, failure to enact either the bill or pending legislation related to the agency’s Investment Division likely requires significant reductions to SRA’s FY 2019 budget, which could affect the level of service provided to members and retirees. Also, any increase in agency expenditures above the current expense cap due to the temporary increase results in State agencies paying a higher per member fee (all funds) to cover the agency’s operating expenses beginning in FY 2019. The amount of the increase cannot be reliably determined, in part because the cap increase is contingent on enactment of other legislation. No effect on revenues.

Local Effect: Any increase in SRA expenditures above the current expense cap results in local school boards and participating governmental units paying a higher per member fee to cover the agency’s expenses beginning in FY 2019. The amount and distribution of those fees cannot be reliably determined.

Small Business Effect: None.

Analysis

Bill Summary: SRA's annual spending cap may not exceed 0.22% of active member payroll, retiree benefits, and former member compensation. However, from fiscal 2019 through 2022, the spending cap may not exceed 0.26% of those same amounts.

If either Senate Bill 899/House Bill 1012 (which remove compensation and operating expenses for the agency's Investment Division from the calculation of agency expenditures) is enacted, the temporary expense cap increase in this bill does not take effect.

Current Law: Each year, the Board of Trustees of the State Retirement and Pension System must estimate the amount necessary for the administrative and operational expenses of the board and SRA, not to exceed 0.22% of the payroll of active members. All agency expenses, including compensation and operational expenses of the Investment Division, are included in the calculation of SRA's expenses.

Background: The fiscal 2018 SRA budget analysis by the Department of Legislative Services (DLS) pointed out that the methodology used by the agency to calculate its spending cap did not conform to the statutory requirement that it use only payroll of active members. Instead, the calculation used as its basis the sum of active payroll, earnable compensation of vested former members, and retiree benefit payments. DLS asked the agency to prepare a report for the Joint Committee on Pensions (JCP) explaining the discrepancy, and the agency presented its report in November 2017. The report explains that the current methodology for calculating the spending cap was enacted by Chapter 372 of 2000, subject to a three-year sunset. However, when the new formula terminated in 2004, neither the agency nor DLS noted the change, and the agency has continued to use the revised formula to calculate its spending cap.

Under the current methodology, the fiscal 2019 calculated spending cap for SRA is \$38.0 million. The agency's proposed fiscal 2019 budget totals \$40.7 million (all funds), an excess of \$2.7 million. Under the statutory methodology, SRA's proposed fiscal 2019 spending is about \$15.0 million over the cap, which could necessitate major reductions in services to members and retirees. In response, JCP agreed to sponsor legislation codifying existing practice regarding the calculation of the spending cap.

At the agency's request, JCP also agreed to include a temporary increase to the fee cap to accommodate the temporary increase in agency spending for a major information technology project that lasts through fiscal 2022 (and which accounts for the agency's budget exceeding the calculated cap in fiscal 2019). The temporary increase in the cap is unnecessary if Senate Bill 899/House Bill 1012 is enacted, removing approximately \$8.0 million in Investment Division spending from the calculation of the spending cap.

An administrative charge to all employers for whom the agency administers retiree benefits provides the revenue to fund the agency. In proportion to total system membership, administrative charge revenue from State agencies pays for roughly one-third (34.0%) of agency operations, and revenue from local employers pays for the remaining two-thirds (66.0%). Reimbursable fund revenues represent State agency payments for administrative costs, and special fund revenues represent administrative payments by local school boards and participating governmental units.

Additional Information

Prior Introductions: None.

Cross File: SB 784 (Senator Guzzone)(Chair, Joint Committee on Pensions) - Budget and Taxation.

Information Source(s): State Retirement Agency; Department of Legislative Services

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