TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL NOTE

SB 1727 - HB 1806

June 15, 2020

SUMMARY OF BILL: Requires, beginning July 1, 2020, local government entities not participating in the Tennessee Consolidated Retirement System (TCRS), who fail to fund their pension plan at 100 percent of the actuarially determined contribution (ADC) in any given fiscal year, to fund the pension plan at 100 percent in the subsequent fiscal year, plus the difference in actual funding from the previous fiscal year.

ESTIMATED FISCAL IMPACT:

On February 8, 2020, a fiscal note was issued for this bill estimating a fiscal impact as follows:

*Increase Local Expenditures – Exceeds $404,900/FY21-22 and Subsequent Years**

Based on actuarial information provided by the Department of Treasury on June 15, 2020, the fiscal impact is being corrected.

(CORRECTED)

Other Fiscal Impact – Local government entities failing to make 100 percent ADC payments in any given fiscal year after FY20-21 may experience an increase in expenditures associated with payment of interest on such unfunded debt; however the timing and extent of such payments cannot reasonably be determined.

Corrected Assumptions:

- The proposed language is applicable only to municipalities, counties, utility districts, school districts, public building authorities, housing authorities, emergency communications districts, and development districts who maintain a pension plan independent of the TCRS.
- Pursuant to Tenn. Code Ann. § 9-3-503 through 9-3-505:
  - An ADC is the annual contribution that incorporates both the normal cost of benefits and the amortization of the pension plan's unfunded accrued liability;
  - An entity not participating in the TCRS is required to fund their pension plan at 100 percent of the ADC annually;

    - Entities not funding their pension plan at 100 percent as of June 30, 2015 are required to increase their contribution a percentage of the difference each year over a maximum of five years until the plan is funded at 100 percent; and
    - Entities unable to meet this annual percentage progression are required to submit a plan of action to the State Treasurer detailing a plan for funding the pension plan at 100 percent by June 30, 2020.
- Based on information provided by the Department of Treasury:
    - In calculating an ADC under the proposed language, an actuary may use several methodologies when accounting for unfunded pension obligations from the previous year; and
    - One methodology could result in interest being applied to the unfunded debt obligation which would not have been calculated under current law.
- In the event interest is added to previously unfunded pension obligations it could result in an increase in local expenditures associated with payment of such interest; however due to multiple unknown factors such as the extent of unfunded obligation, the rate of interest assessed, and the frequency of such occurrences, a precise increase in local expenditures occurring after FY20-21 cannot reasonably be determined.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

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Krista Lee Carsner, Executive Director

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