HOUSE BILL REPORT
ESSB 6573

As Reported by House Committee On:
Appropriations

Title: An act relating to providing additional revenues for public safety, including law enforcement officers and firefighters plan 2 pension plan benefits.

Brief Description: Providing additional revenues for public safety.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Brandland, Kauffman, Delvin, Benton, Roach, McAuliffe and Rasmussen; by request of LEOFF Plan 2 Retirement Board).

Brief History:
Committee Activity:
Appropriations: 3/3/08 [DPA].

Brief Summary of Engrossed Substitute Bill
(As Amended by House Committee)

- Requires that beginning September 30, 2011, and every two years thereafter, the State Treasurer shall transfer, subject to appropriation by the Legislature, $5 million to a new Local Public Safety Enhancement Account (LPSEA), provided that state revenues exceed the previous fiscal biennium's by 5 percent.
- Increases the transfer to the LPSEA to $10 million for the 2013-15 biennium, and $20 million for the 2015-17 biennium and each biennium thereafter.
- Creates the LEOFF Benefits Improvement Account (Account) and grants the LEOFF 2 Board sole authority to establish policies and make disbursements from the Account, with the exception of investment authority.
- Provides that half of the funds deposited into the LPSEA are transferred to the new Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Benefits Improvement Account, and half of the funds are distributed for public safety purposes to employers of LEOFF Plan 2 (LEOFF 2) employers based on the share of total LEOFF 2 membership employed by each.

- Restricts funds in the LEOFF Benefits Improvement Account to be used for financing the expected actuarial present value of fully projected benefits for current and future members that are adopted by the Legislature upon recommendation of the LEOFF 2 Board.

- Excludes the funds in the LEOFF Benefits Improvement Account from the State Actuary's calculation of the market value of assets of the LEOFF 2 pension fund until the LEOFF 2 Board directs that the funds be included.

- Empowers the State Investment Board to invest and manage the funds in the LEOFF Benefits Improvement Account.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended. Signed by 32 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Haler, Assistant Ranking Minority Member; Anderson, Chandler, Cody, Conway, Darneille, Ericks, Fromhold, Grant, Green, Haigh, Hunt, Hunter, Kagi, Kenney, Kessler, Kretz, Linville, McDonald, McIntire, Morrell, Pettigrew, Priest, Ross, Schmick, Seaquist, Sullivan and Walsh.

Staff: David Pringle (786-7310).

Background:

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) provides retirement benefits to full-time, fully-compensated law enforcement officers and fire fighters employed by the state, cities, counties, and special districts and who were first employed in an eligible position on or after October 1, 1977.

The LEOFF 2 has about 15,700 active members and 1,400 retired and term vested members, earning an average salary of about $74,000, as of the 2006 Actuarial Valuation. The LEOFF 2 had a present value fully projected benefit liability of about $6 billion, and is approximately 116 percent of fully funded.

The LEOFF 2 is funded by contributions to the LEOFF 2 Retirement Fund from member, employer, and state contributions, as well as investment earnings on the funds contributed. The total level of contributions required in a given period is allocated as follows: 50 percent is paid by the members, 30 percent is paid by employers, and the remaining 20 percent is paid by the state. Investment of monies in the LEOFF 2 Retirement Fund is handled by the State Investment Board (SIB).

Currently the member contribution rate for LEOFF 2 is 8.64 percent, for employers is 5.35 percent, and for the state is 3.45 percent. During the 2007-09 fiscal biennium, the state is anticipated to contribute about $97 million General Fund-State to LEOFF 2. Total projected contributions from members, employers, and the state for the 2007-09 biennium are about $485 million.

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board (the Board) is responsible for the adoption of the economic assumptions, actuarial methods, and contribution rates for LEOFF 2. The Board may adopt increased benefits for LEOFF 2, subject to affirmative legislative rejection, recommend statutory changes to the Legislature as required, and study issues related to plan funding and benefits. The expenses of the Board are paid from the LEOFF 2 Retirement Fund, with the LEOFF 2 Expense Fund serving as an intermediary expense account. The day-to-day administration of LEOFF 2 to is handled by the Department of Retirement Systems (DRS).

Summary of Amended Bill:

Beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer shall transfer, subject to appropriation, funds for transfer to a new Local Public Safety Enhancement Account (LPSEA).

The amounts of the transfers to the LPSEA are: $5 million for 2011; $10 million in 2013; $20 million in 2015; and in subsequent fiscal biennium the lesser of one-third of the general revenue increase amount or $20 million. General state revenues means total revenues to the General Fund-State less state revenues from property taxes. The appropriation and transfer of funds to the LPSEA are not a matter of contractual right, nor are part of the systematic method of funding LEOFF 2.

Half of the funds moved to the LPSEA are to be transferred to a new Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF 2 Retirement Fund. The remaining funds in the LPSEA are distributed to local governments for public safety purposes.

Money transferred to the Benefits Improvement Account can only be used to fund the expected actuarial present value of fully projected benefit improvements for current and future members adopted by the Legislature based upon a request of the LEOFF 2 Board (Board) or to cover the investment-related expenses of the Benefits Improvement Account. The expected actuarial present value of fully projected benefits is calculated by the State Actuary using the long-term economic and demographic assumptions adopted by the Board for the regular valuation of the plan.

The State Investment Board (SIB) is authorized to adopt investment policies and invest the money in the Benefits Improvement Account.

The Board has the sole authority to authorize disbursements from the Benefits Improvement Account, and to establish all other policies relating to the Benefits Improvement Account, which must be administered in an actuarially sound manner. Funds in the Benefits

Improvement Account may not be considered assets of the plan and are not included in contribution rate calculations by the State Actuary until so directed by the Board for purposes of financing benefits adopted by the Board.

The State Treasurer is responsible for the distribution of the remaining funds in the LPSEA to local governments. Each jurisdiction's allocation is proportionate to the share of LEOFF 2 membership that it employs. In the event that two jurisdictions have a contract for the provision of law enforcement or fire protection services, the two parties must agree on a revenue sharing arrangement before funds will be distributed. The LPSEA funds may only be used for the purposes of enhancement of criminal justice services, information and assistance programs for families of at risk or runaway youth, or other public safety purposes.

Amended Bill Compared to Engrossed Substitute Bill:

The bill as passed by the Senate set the fiscal biennium revenue growth threshold used to determine the transfers, or amount of transfers, to the LPSEA at 3 percent, rather than 5 percent as in the amendment. In the engrossed substitute bill, the transfers to the LPSEA rose to $50 million per biennium (if revenue growth was sufficient) in 2017, and then $50 million on September 30 of odd-numbered years in each fiscal biennium thereafter.

The amendment replaced the provision allowing funds placed in the Benefits Improvement Account to be used for financing benefits passed by the LEOFF 2 Board (Board) or the Legislature upon a request of the Board with a provision permitting only the use of the funds to be used for the expected actuarial present value of fully projected benefit improvements for current and future members adopted by the Legislature based upon a request of the Board.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) There were some pieces of the initiative that created the LEOFF 2 Board (Board) that established other methods for benefit adoption. The method most familiar to the Committee, Board-recommended bills coming to the Legislature for passage, is the only process that the Board has used over the last five years. The other process of benefit adoption - upon Board authority subject to legislative repeal, became moot upon passage of legislation modifying and implementing the initiative, removing revenue language related to excess earnings. No one has recommended using the second process. Under that second process, if there is an improvement that the Board would like, they could recommend it, along with the funds and the Legislature could review it. With the first more traditional benefits process, the Board would recommend a bill, and the bill would itself require use of the money in the Benefits Enhancement Account to pay for the bill. The Board-adopted second process, even if funds were available, remains questionable because it is not clear that it is technically legal. The cities employ nearly two-thirds of the LEOFF 2 members. Revenues to the cities from property and sales taxes are capped, and are growing at a slower rate than public safety costs, the largest part of city budgets. Fire costs are growing at 6 percent per year, and law enforcement costs at 5 percent. The bill has reasonable triggers for when revenue growth is too low. About 70 percent of county budgets are public safety-related, and this portion is growing at about 7.5 percent per year. Both employers and other public safety purposes are helped by this bill.

(Opposed) None.

Persons Testifying: Jim Justin, Association of Washington Cities; Steve Nelsen, LEOFF Plan 2 Retirement Board; and Julie Murray, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying: None.