Fiscal Note

BILL # HB 2027

TITLE: appropriations; unfunded liability; CORP

SPONSOR: Livingston

STATUS: As Amended by House APPROP

PREPARED BY: Geoffrey Paulsen

Description

The bill would: 1) Appropriate $428.8 million from the General Fund in FY 2023 to the Public Safety Personnel Retirement System (PSPRS) to be deposited in the Administrative Office of the Courts (AOC) Corrections Officer Retirement Plan (CORP) group account to eliminate the current unfunded accrued liability; and 2) Implement state agency spending reductions and require county government payments starting in FY 2024 to realize savings from the lower CORP employer contribution rate.

Estimated Impact

The CORP employer contribution rate has 2 components. The first component is the normal cost, which is the immediate cost associated with the benefit being earned. The second component is the unfunded liability, which represents prior benefits earned by members that are unfunded due to changes in the plan's actuarial performance or assumptions.

The bill's appropriation would eliminate the current unfunded liability for the AOC CORP group, which would reduce the employer contribution rates paid by county probation departments. The bill would reduce the AOC CORP employer contribution rate by (33.70)% and require PSPRS to implement the lower rate starting in FY 2024.

Table 1

HB 2027 – CORP Employer Contribution Impact

AOC CORP Contribution Rate – FY 24 Valuation	39.70%
FY 24 AOC CORP Contribution Rate After HB 2027	6.00%
Change in CORP Employer Contribution Rate	**(33.70)%**

The bill would increase General Fund spending by $428.8 million one-time in FY 2023. Beginning in FY 2024, we estimate total annual General Fund savings would be $34.3 million (see *Table 2*).

Table 2

HB 2027 – Summary of FY 2024 General Fund Fiscal Impact

State Spending Reduction	$10,114,100
County Government Payments	24,188,100
Total Annual Savings	**$34,302,200**

Given the state and local cost sharing arrangement for probation, we are still discussing with AOC and the County Supervisors Association the appropriate split between state spending reductions and county payments to the state.

(Continued)

Analysis

The $34.3 million of total annual General Fund savings consists of the following amounts: $10.1 million from lower state spending and $24.2 million of additional revenue associated with county payments to recoup their contribution rate savings. The county payments would be required annually during a 10-year period from FY 2024 through FY 2033.

State Spending Reduction

The state and counties (excluding Maricopa County) share the costs of probation. While probation officers are officially county employees, the state funds some portion of the case-carrying probation officers through line item appropriations in the Superior Court budget. Probation officers are enrolled in the CORP system, and the state appropriations include funding for the employer (county) retirement contribution. Maricopa County is responsible for funding 100% of its probation costs.

Under the CORP system, plan provisions are determined by the following employee tiers: Tier 1 employees (hired before 1/1/2012), Tier 2 employees (hired on or after 1/1/2012 through June 30, 2018), and Tier 3 employees (hired on or after July 1, 2018). For Tier 3 employees in the AOC employer group, members are given the choice to select a defined contribution plan or defined benefit plan (with a default selection of defined benefit plan after 90 days).

Tier 1 and Tier 2 employees are currently subject to an employer contribution rate of 39.70%. Based on data provided by PSPRS, after the bill's appropriation to eliminate the AOC employer group unfunded liability, the actuarially determined employer contribution rate for this tier of employees in FY 2024 would be 3.39%. However, because statute imposes a 6.00% minimum CORP employer contribution rate, we estimate the bill's appropriation would lead to a (33.70)% reduction in the employer contribution rate (39.70% compared to 6.00%) for Tier 1 and Tier 2 employees.

The bill's elimination of the AOC employer group unfunded liability would also lower costs associated with Tier 3 employees. For Tier 3 defined benefit employees, the employer contribution rate has 3 components: 1) The normal cost; 2) The unfunded liability for Tier 3 employees; and 3) An additional unfunded liability rate associated with Tier 1 and Tier 2 employees (known as "legacy costs"). For Tier 3 defined contribution employees, the employer contribution rate consists of: 1) The normal cost (a fixed 5% 401k-style match, plus smaller variable components associated with retiree health benefits and disability coverage); 2) An additional rate associated with the Tier 1 and Tier 2 legacy costs. For both groups of Tier 3 employees, this legacy rate is 36.32% during FY 2024. Following the elimination of the unfunded liability, this legacy rate would be removed, leading to a (36.32)% reduction in the employer contribution rate for Tier 3 employees. The final contribution rate savings for Tier 3 defined benefit employees may be less than this amount, however, if that class of employee is also subject to the 6.00% minimum CORP employer contribution rate.

To calculate the change in state spending, the reduction in the CORP contribution rate was applied to the salary base of state-funded probation officers by line item, as reported by AOC (see *Table 3*). Because we lack data on the distribution of employee tiers within each Superior Court budget line item, our analysis uses the (33.70)% contribution rate change associated with Tier 1 and Tier 2 employees and applies that change to the entire state-funded CORP salary base in each line item.

Table 3

Summary of HB 2027 Spending Reductions (Superior Court Budget)

Line Item	
Adult Standard Probation	$ 3,813,600
Adult Intensive Probation	2,263,700
Community Punishment	101,400
Interstate Compact	83,500
Drug Court	137,500
Juvenile Standard Probation	668,000
Juvenile Intensive Probation	1,136,500
Juvenile Treatment Services	753,300
Juvenile Diversion Consequences	1,156,600
Total Annual Spending Reductions	**$10,114,100**

(Continued)

County Government Payments

While the state funds some portion of the case-carrying probation officers in non-Maricopa Counties, counties fund pre-adjudication probation officers and other support staff, many of whom are enrolled in CORP. To calculate the county savings, the reduction in the CORP contribution rate was applied to the salary base of county-funded probation officers, as reported by AOC. Because we lack data on the distribution of employee tiers within each county, our analysis uses the (33.70)% contribution rate change associated with Tier 1 and Tier 2 employees and applies that change to the entire county-funded CORP salary base in each county.

Because the bill's appropriation would use state General Fund monies to eliminate the counties' unfunded liability, each county payment requirement was calculated to recoup the annual savings realized by the county (due to the lower contribution rate) in the form of a payment to the General Fund each year. The bill would require these payments for a 10-year period, from FY 2024 through FY 2033. *(See Table 4 for a list of the required payments for each county)*.

Table 4

Summary of HB 2027 County Payments

County	
Apache	$ 73,200
Cochise	281,400
Coconino	613,900
Gila	198,000
Graham	35,000
Greenlee	23,000
La Paz	40,800
Maricopa	17,112,200
Mohave	403,800
Navajo	181,600
Pima	2,145,200
Pinal	1,077,200
Santa Cruz	102,900
Yavapai	1,224,500
Yuma	675,400
Total Annual County Payments	**$24,188,100**

2/14/23