BILL SUMMARY

1st Session of the 53rd Legislature

Bill No.:	**HB 1011**
Version:	**Committee Substitute**
Request Number:	**6639**
Author:	**Rep. Randy McDaniel**
Date:	**2/21/2011**
Impact:	**OTRS – Potential Actuarial Gain**
	Lost CLO Distribution – Yr. 1 - $700,000

Research Analysis

HB1011, as introduced, establishes the Teachers' Retirement System Cost-of-Living Adjustment Funding Source Act of 2011.

The Proposed Committee Substitute for the measure creates the Teachers' Retirement System Cost-of-Living Adjustment Reserve Fund (the Reserve Fund) in the State Treasury. This continuing fund is to be used by the Commissioners of the Land Office (CLO) for the deposit of a portion of revenues derived from the leasing of oil and gas mineral rights. Beginning January 1, 2012 and for the nine fiscal years to follow, the CLO is to allocate $20 million or 50% of these revenues, whichever is less, to the Reserve Fund. In the event that a cost-of-living adjustment (COLA) is legislatively authorized, funding for the COLA must come entirely from the available balance of the Reserve Fund as deposited into the Teachers' Retirement System Dedicated Revenue Revolving Fund. Certain provisions of the measure are contingent upon the enactment of an amendment to Section 8 of the Oklahoma Enabling Act, which specifically authorizes the deposit of the oil and gas lease revenues.

Prepared By: Alexandra Edwards

Fiscal Analysis

HB 1011 in its current form, creates an OTRS COLA reserve fund and a funding stream from the Commissioners of the Land Office (CLO). The fund is dedicated to concurrently fund a future COLA for retired OTRS members; though no COLA is enacted in HB 1011. Since OTRS's current actuarial assumptions assume that OTRS will bear the cost of all future COLAs, the fact that HB 1011 seeks to concurrently fund a future COLA will result in a future savings for OTRS and an Actuarial Gain. The size of such gain will depend on the amount of the COLA ultimately enacted in relation to OTRS's COLA assumption.

The monies diverted by HB 1011 (the lesser of $20 million or 50% of CLO mineral leasing income) to the OTRS COLA reserve fund would otherwise be deposited in the Permanent Fund at the Land Office. Interest earnings from the Permanent Fund are distributed to common schools. Mineral Leasing Income is a volatile revenue stream but over the last 5 years the average of 50% of the income has been approximately $23 million, meaning the annual contribution under HB 1011 would likely be capped at $20 million. CLO assumes an interest return of 3.5%, meaning that in the first full year approximately $700,000 less than otherwise, would be distributed by CLO, this amount would ramp up each year of the 9 year program by approximately $700,000 increments until it levels off at $6,300,000 at the end of year 9.

Prepared By: John McPhetridge

Other Considerations

HB 1011 in its current form has been deemed a non fiscal retirement bill by the Legislative Actuary, meaning the bill neither grants a benefit increase, adds actuarial liability, nor increases the normal cost of the retirement system affected.

Section 2 subsection D of the measure makes the fundamental provisions of the measure contingent on the enactment of federal legislation.