

Section 1

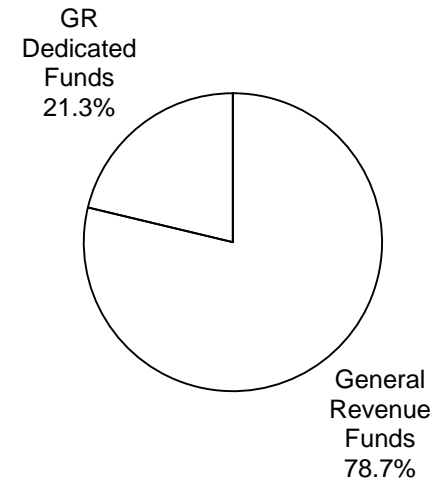
Optional Retirement Program
Summary of Recommendations - House

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Jody Wright, LBB Analyst

Method of Financing	2012-13 Base	2014-15 Recommended	Biennial Change	% Change
General Revenue Funds	\$213,301,441	\$196,028,499	(\$17,272,942)	(8.1%)
GR Dedicated Funds	\$47,687,276	\$52,921,433	\$5,234,157	11.0%
<i>Total GR-Related Funds</i>	<i>\$260,988,717</i>	<i>\$248,949,932</i>	<i>(\$12,038,785)</i>	<i>(4.6%)</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
All Funds	\$260,988,717	\$248,949,932	(\$12,038,785)	(4.6%)

RECOMMENDED FUNDING
BY METHOD OF FINANCING



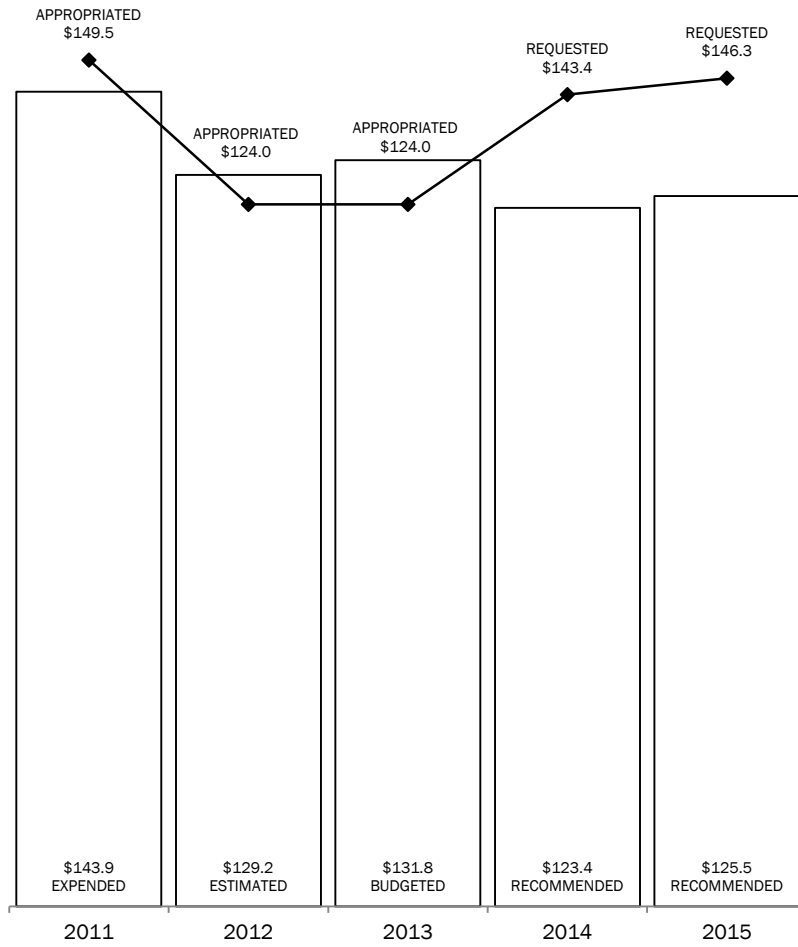
	FY 2013 Budgeted	FY 2015 Recommended	Biennial Change	% Change
FTEs			0.0	0.0%

The bill pattern for this agency (2014-15 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2014-15 biennium.

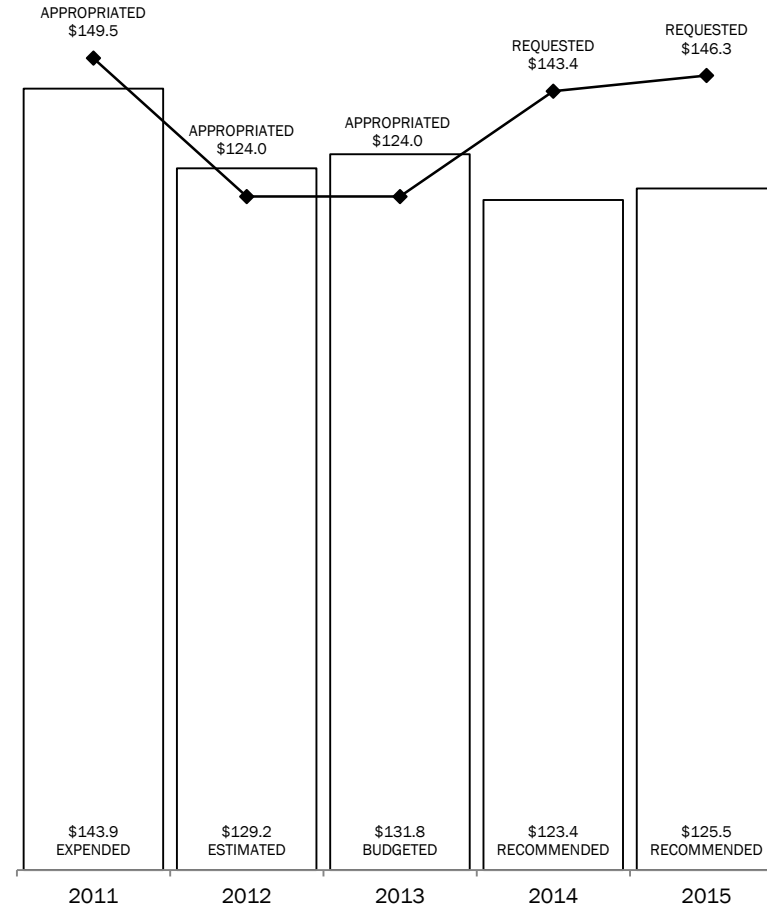
Section 1
Optional Retirement Program
2014-2015 BIENNIUM
 IN MILLIONS

TOTAL= \$248.9 MILLION

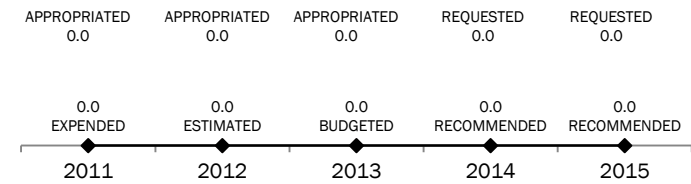
ALL FUNDS



**GENERAL REVENUE AND
 GENERAL REVENUE-DEDICATED FUNDS**



FULL-TIME-EQUIVALENT POSITIONS



Section 2

**Optional Retirement Program
Summary of Recommendations - House, By Method of Finance -- Supplemental**

Strategy/Fund Type/Goal	2012-13 Base	2014-15 Recommended	Biennial Change	% Change	Comments
OPTIONAL RETIREMENT PROGRAM A.1.1	\$260,988,717	\$248,949,932	(\$12,038,785)	(4.6%)	
GENERAL REVENUE FUNDS	\$213,301,441	\$196,028,499	(\$17,272,942)	(8.1%)	Recommendations reflect a state contribution rate for higher education retirement of 6 percent for fiscal year 2012 and fiscal year 2013, increasing to 6.4 percent for fiscal years 2014 and 2015. The recommendations also assume a 2 percent annual payroll growth and limit the General Revenue appropriated for retirement contributions to community colleges to 6.4 percent of the unrestricted General Revenue (UGR) appropriated to each district. The recommendation reflects an 11 percent net increase in General Revenue above the 2012-13 estimated funding levels, or \$23.4 million, attributable to an increase in the state matching contributions from 6 percent in fiscal years 2012 and 2013 to 6.4 percent for fiscal years 2014 and 2015. The increase is offset by a decrease of \$40.7 million in General Revenue for continuing the current policy that limits the UGR amount appropriated to community college districts to the state contribution rate applied to each community college district's unrestricted General Revenue (UGR) appropriations. See Selected Fiscal and Policy Issue, #1 and #2.
GR DEDICATED	\$47,687,276	\$52,921,433	\$5,234,157	11.0%	Recommendations reflect a \$5.2 million increase in General Revenue-Dedicated funds above the 2012-13 estimated funding levels attributable to an increase in state matching retirement contributions from 6 percent in fiscal years 2012 and 2013 to 6.4 percent for fiscal years 2014 and 2015 and assumes a 2 percent annual payroll growth.
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
Total, Goal A, OPTIONAL RETIREMENT PROGRAM	\$260,988,717	\$248,949,932	(\$12,038,785)	\$0	

Section 3

**Optional Retirement Program
Selected Fiscal and Policy Issues**

- 1. State contribution for the Optional Retirement Program and Payroll Growth Assumptions.** Recommendations include funding sufficient to provide for a 6.4 percent state contribution rate for the Optional Retirement Program (ORP) for higher education employees (which matches the recommended contribution rate for the Teacher Retirement System). Retirement contributions for the 2012-13 biennium are based on a 6 percent state contribution rate in each fiscal year. Recommendations for the 2014-15 biennium assume a higher education annual payroll growth of 2 percent for fiscal years 2013, 2014, and 2015. Historical trends reflect a 7 percent average annual payroll growth for higher education employees that dropped to 2 percent in fiscal year 2012. The recommendation would continue the policy established by ORP Rider 5 in the 2012-13 GAA limiting the General Revenue appropriated for retirement contributions for community college employees to the state contribution rate applied to each community college district's unrestricted General Revenue (UGR) appropriation. See Selected Fiscal and Policy Issue #2.
- 2. Limitation of General Revenue Fund Retirement Contributions to Public Community/Junior Colleges.** The Legislature provides state matching retirement contributions on behalf of public community and junior college employees through the ORP appropriation. The requirement that benefits be paid proportional by fund is stipulated in Article IX, 6.08, of the 2012-13 GAA and means that state contributions from General Revenue for employee benefits should only apply to those salaries paid from General Revenue. Although historically public community college districts have been specifically exempted from the Article IX provision, ORP Rider 5 in the 2012-13 GAA applies the principle of proportionality by limiting the General Revenue appropriation to 6 percent of each public community college district's unrestricted General Revenue (UGR) with the expectation that contributions made on the balance of covered payroll would be paid from other available funds. That policy is continued for 2014-15 in the recommendation. The state matching contributions from General Revenue for community college employees is expressed in the table below.

Public Community and Junior Colleges 2014-15 State Matching Contribution Rate and Payroll Growth Assumption						
Recommendation	State Contribution Rate		Payroll Growth Assumption	2014-15 Total of Payroll-Based Contributions	2014-15 ORP Savings Limit GR Appropriations to 6.4 percent of each district's UGR	Net 2014-15 General Revenue Recommendation
	REC 2014	REC 2015				
	6.40%	6.40%	2% Higher Ed	\$236,713,407	(\$40,684,908)	\$196,028,499

Update of Status of 2012-13 Payments. In February, 2011 the Texas Association of Community Colleges (TACC) submitted a legal opinion claiming limitation to community colleges' UGR appropriation was unconstitutional because the state retirement contribution is required to be at least 6 percent of aggregate compensation rather than compensation paid only from General Revenue to community colleges. TACC recommended that the districts not remit payments from other revenue sources for the remaining amount of state matching retirement contributions owed for ORP. Under the policy established by ORP Rider 5 and the comparable TRS Rider 13, the total GR available for fiscal year 2012 for state retirement contributions for community college employees for the ORP and the TRS combined is \$52.5 million. The total amount of ORP state matching retirement contributions remitted by community colleges from the General Revenue appropriations is \$29.6 million, leaving a remaining \$0.8 million owed for ORP for fiscal year 2012 by the community colleges.

Section 3

The total UGR available for fiscal year 2013 for state retirement contributions for community college employees for the ORP and the TRS combined is estimated at \$54.1 million. The ORP state matching retirement contributions to be remitted by community colleges from the General Revenue appropriations is estimated to be \$29.7 million, leaving an estimated \$1.3 million to be remitted from other available funds.

Because the exact amount of ORP and TRS covered payroll is unknown at the time of appropriation, the appropriations for the state contributions to the two systems are estimated. This estimated appropriation allows the Comptroller to settle up with the systems at the end of each fiscal year based on actual payroll. For fiscal year 2012, through this settle up process, ORP and TRS have received the full amounts owed for state retirement contributions, including shortfall amounts resulting from the community college districts' non-compliance described above. The difference owed by the community college districts for retirement contributions was paid from General Revenue at a state cost.

In addition to the funding recommendation outlined above, the recommendations also include the following:

- 1) Revision to Article IX, Sec. 6.08. Benefits Paid Proportional by Fund to require public community and junior colleges' compliance with proportionality.
- 2) Appropriations for each community college district's formula allocation for the 2014-15 biennium is contingent upon each district paying in full the outstanding retirement benefits due the Optional Retirement Program for fiscal years 2012 and 2013 (see Public Community Junior Colleges Rider 21).

In addition to steps taken in the General Appropriations Bill, the Legislature could consider amending Section 825.407 of the Government Code to specifically include public community and junior colleges in provisions related to proportionality.

Section 3

**Optional Retirement Program
Performance Measure Highlights**

	Expended 2011	Estimated 2012	Budgeted 2013	Recommended 2014	Recommended 2015
• <i>Number of ORP Participants</i>	39,132	39,523	39,919	40,318	40,721
<i>Measure Explanation: Recommendations reflect a one percent annual growth in participation. Actual performance data for fiscal year 2012 will be finalized and targets will be revised upon receipt of data from the Texas Higher Education Coordinating Board.</i>					

Section 4

**Optional Retirement Program (ORP)
Performance Review and Policy Report Highlights**

Reports & Recommendations	Report Page	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS

Section 5

Optional Retirement Program Rider Highlights

- #2. **State Contribution to Optional Retirement Program.** Modify rider to provide for a 6.4 percent state contribution rate for the Optional Retirement Program for higher education employees.
- #5. **Limitation on General Revenue Fund Retirement Contributions to Public Community and Junior Colleges.** Modify rider to provide additional clarity to the intent of the rider language.
- #6. **ORP Membership Reporting Requirements.** Add a reporting rider to require the Higher Education Coordinating Board submit to the LBB and Governor, no later than October 1st of each year, the estimated amount of ORP contributions as required under statute including the number of participants and eligible positions.

Section 6

**Optional Retirement Program
Items not Included in the Recommendations - House**

NONE