



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 683 (as enacted)
Sponsor: Senator Roger Kahn, M.D.
Committee: Appropriations
House Committee: Appropriations

PUBLIC ACT 64 OF 2012

Date Completed: 3-29-12

CONTENT

On October 27, 2011, the State Budget Office issued Supplemental Request 2012-6, which has been incorporated into Senate Bill 683. This is a fiscal year (FY) 2011-12 multidepartment supplemental bill implementing the portion of the overall budget target agreement reached in May 2011, that addressed other post-employment benefits (OPEB). OPEB refers to retiree health care, and other nonpension retiree benefits such as dental and vision coverage. The agreement reached by the Governor and legislative leaders during target negotiations that related to OPEB set aside \$140.0 million in General Fund/General Purpose (GF/GP) money on the FY 2011-12 balance sheet, which, when combined with the \$60.0 million GF/GP appropriated directly in the Department of Technology, Management, and Budget (DTMB) budget, was intended for beginning the process of prefunding retiree health care in the State Employees' Retirement System (SERS).

Before FY 2011-12, SERS paid for OPEB on a cash basis by charging departments a percentage of payroll reflecting estimated retiree medical, dental, and vision costs for the year, without any assets in reserve. Under a cash basis, the unfunded accrued liability for OPEB in SERS was estimated at \$15.2 billion. However, beginning the process of prefunding retiree health care and other benefits for State employees, results in an estimated decline of nearly \$6.0 billion in the unfunded accrued liability in SERS for OPEB, to \$9.4 billion, which reflects assumed investment returns available if the State makes yearly payments at prefunding levels, and if market returns materialize at the assumed rate. If these assumptions hold true and the State appropriates the amount necessary to prefund each year for the next 26 years, then the unfunded liability will be paid off at that time, and State costs for retiree health care will drop to 2% of payroll.

Adjusted Gross appropriations (netting out interdepartmental grants) under Senate Bill 683 total \$249.7 million. Of that total, the bill would appropriate \$144.5 million GF/GP (of which \$140.0 million has already been set aside on the FY 2011-12 balance sheet), along with \$57.6 million Federal, \$38.4 million State Restricted, \$8.7 million local, and \$0.4 million private, and distribute that funding across departments in order to pay for the increased costs associated with the first year of prefunding the SERS OPEB, which is more expensive in the short term than paying bills on a cash basis (on which the FY 2011-12 departmental budgets initially were based). In addition, the supplemental would distribute, across departments, \$42.9 million of the \$60.0 million already appropriated to the DTMB via interdepartmental grants. This translates to a 9.3% increase in retiree health care costs to be remitted by departments, above the amounts initially built into their budgets.

Senate Bill 683 incorporates all of the Executive recommendations found in Supplemental Request 2012-6 (\$135.4 million GF/GP), and also includes \$3.8 million GF/GP for the Legislative Retirement System (LRS) to mirror the prefunding done in the State

Employees' Retirement System. Doing so reduces the estimated unfunded liability from \$139.4 million under a pay-as-you-go system to \$96.5 million under a prefunded system.

The bill also includes \$4.3 million GF/GP, spread among the Senate, Senate Fiscal Agency, House, House Fiscal Agency, and the office that administers the LRS, for the increased costs associated with a provision of House Bill 4701 (Public Act 264 of 2011) that requires the unfunded accrued liability in SERS to be spread among both the Defined Benefit (DB) and Defined Contribution (DC) payrolls, rather than just across the DB payroll. While this is anticipated to be addressed among all departments in the Governor's Recommendation for FY 2012-13, it is not anticipated to be addressed for the Legislature, and this piece of the supplemental is in lieu of what otherwise would be part of the overall adjustments. The statutory change to spread the liability over all payroll means that some departments that are "DB-heavy" will see reduced costs, while those that are "DC-heavy" will see increased costs, but, overall, it is a "zero-sum game" with no net increase or reduction in costs. The House and Senate experience high turnover due to the nature of legislative terms and therefore are "DC-heavy", prompting higher costs when spreading liability across all payrolls. However, since this is a "zero-sum game", there will be corresponding reductions in costs in other departments, which are anticipated to be addressed in the Governor's Recommendation for FY 2012-13.

Senate Bill 683 includes one final piece concerning the legislative budget, again related to retirement costs. In the current year, pension costs rose substantially above the FY 2010-11 rates and the bill would allocate \$550,000 GF/GP to both the House and the Senate to make payments into SERS for the increased rates. A similar supplemental was enacted for the Legislative Service Bureau in Public Act 278 of 2011. Other Executive branch budgets already accounted for these increases in pension costs during the initial budget process. The table below summarizes the appropriations in Senate Bill 683.

Senate Bill 683 Appropriation Summary	
Fund Source	FY 2011-12 Appropriation
Gross Appropriation	\$306,271,900
Less Interdepartmental Grants and Transfers.....	56,590,800
Adjusted Gross Appropriation	\$249,681,100
<u>Financed From:</u>	
Federal Revenue	\$57,621,400
Local and Private Revenue	9,124,700
State Restricted Revenue	38,407,000
State GF/GP	\$144,528,000

FISCAL IMPACT

While the bill would appropriate Gross funding of \$306.3 million, of which \$144.5 million is GF/GP, Senate Bill 683 actually would appropriate \$12.6 million GF/GP less than previously anticipated. As noted above, \$140.0 million GF/GP was set aside on the FY 2011-12 balance sheet for prefunding OPEB and \$60.0 million GF/GP was directly appropriated to the DTMB for this purpose, for combined GF/GP spending toward OPEB of \$200.0 million. Under this bill, \$144.5 million would be newly appropriated and \$42.9 million of the DTMB's appropriation for OPEB would be distributed among departments, for total GF/GP OPEB and other retirement spending of \$187.4 million (or \$12.6 million less than original expectations). The following table lists OPEB appropriations by budget area.

Fiscal Analyst: Kathryn Summers

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

Senate Bill 683								
OPEB Appropriations by Budget Area								
Department/Budget Area	Gross Appropriation	Interdept. Grants	Adjusted Gross	Federal Funds	Local and Private	State Restricted	GF/GP	One-Time IDG from DTMB ¹⁾
Agriculture & Rural Development	\$2,463,700	\$140,100	\$2,323,600	\$403,000	\$7,100	\$737,500	\$1,176,000	\$128,900
Attorney General	3,835,400	1,122,000	2,713,400	451,100	0	793,600	1,468,700	162,100
Civil Rights	652,600	144,500	508,100	0	0	0	508,100	144,500
Community Health	27,862,000	671,800	27,190,200	5,850,000	7,249,600	837,800	13,252,800	608,500
Corrections	77,925,600	30,900	77,894,700	264,400	8,500	1,518,900	76,102,900	0
Education	2,961,000	0	2,961,000	1,993,500	110,000	272,600	584,900	0
Environmental Quality	8,467,100	3,572,000	4,895,100	1,055,900	14,000	2,938,500	886,700	3,522,600
Human Services	61,242,900	3,965,000	57,277,900	33,521,000	981,300	84,500	22,691,100	3,943,500
Judiciary	2,814,000	29,200	2,784,800	155,300	245,200	178,300	2,206,000	0
Legislative Auditor General	934,100	266,000	668,100	0	0	34,900	633,200	100,100
Legislature	3,841,400	0	3,841,400	0	0	0	3,841,400	0
Licensing & Regulatory Affairs	24,327,600	1,496,600	22,831,000	11,787,300	0	10,092,400	951,300	884,000
Military & Veterans Affairs	4,061,400	2,810,500	1,250,900	199,900	45,500	66,700	938,800	2,806,200
Natural Resources	9,945,300	4,652,500	5,292,800	36,400	89,200	4,671,700	495,500	4,590,100
State	7,873,100	6,312,700	1,560,400	0	0	1,096,000	464,400	6,312,700
State Police	8,657,600	2,564,900	6,092,700	20,600	247,900	1,134,200	4,690,000	2,318,000
Technology, Management, & Budget	17,326,200	11,948,700	5,377,500	307,700	70,400	2,554,100	2,445,300	725,000
Transportation	16,666,500	16,466,300	200,200	0	0	200,200	0	16,330,700
Treasury-Operations	11,067,800	397,100	10,670,700	274,500	56,000	9,020,000	1,320,200	302,800
Treasury-Strategic Fund	4,208,500	0	4,208,500	1,300,800	0	2,175,100	732,600	0
Subtotal OPEB Prefunding	\$297,133,800	\$56,590,800	\$240,543,000	\$57,621,400	\$9,124,700	\$38,407,000	\$135,389,900	\$42,879,700
Retirement Adjustments-Legislature	\$9,138,100		\$9,138,100				\$9,138,100	
Total Appropriations	\$306,271,900	\$56,590,800	\$249,681,100	\$57,621,400	\$9,124,700	\$38,407,000	\$144,528,000	
¹⁾ These amounts are included in the Interdepartmental Grants column.								