Furloughs
Preliminary Follow-up Report

LEOFF Plan 2 Retirement Board

October 27, 2010

Issue

- Members may have their retirement benefit adversely affected because of salary reductions as a result of the current economic conditions if it occurs during their final average salary (FAS) period.

Background

- Furloughs
- Legislation in Washington
- Temporary salary reductions

Legislation

- Current legislation excludes LEOFF Plan 2 members at cities, counties and fire districts
- Expand legislation to cover temporary salary reductions for LEOFF Plan 2 members

Temporary Salary Reductions

- Examples :
  - Across the board salary reductions
  - Forgo previously negotiated raises or cost of living adjustments

Select Committee on Pension Policy (SCPP) Coordination

- Request that the SCPP develop legislation which includes temporary salary reductions for LEOFF Plan 2 members

Summary

- Creates the potential for a reduction in a member's pension benefit calculation if the salary reduction occurs during the FAS period.

- Creates inconsistencies between members with different employers.

Furloughs

QUESTIONS?

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Furloughs

Preliminary Follow-up Report

October 27, 2010

1. Issue

Members may have their retirement benefit adversely affected because of salary reductions as a result of the current economic condition if it occurs during their final average salary (FAS) period.

2. Staff

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3. Members Impacted

As of June 30, 2008 there were 16,626 active members and 1134 retirees as reported in the Office of the State Actuary's *2008 Actuarial Valuation Report*. Furloughs are a short-term option for solving budget shortfalls and should impact only those active members who plan to retire within the next five-seven years, and are furloughed during their FAS period.

4. Current Situation

A member's benefit is calculated using the formula; 2 percent, times FAS times years of service (YOS). If a member's salary is reduced during their FAS period, it lowers their FAS, and thus lowers their benefit. These reductions may be either voluntarily or involuntarily unpaid leave (furlough), a temporary reduction in salary, or the loss of previously negotiated raises.

5. Background Information and Policy Issues

In today's economic environment many local and state governments are facing revenue shortfalls. There may be some public service programs discontinued or restricted and there may be some employee layoffs as a result of budget restrictions. In order to balance budgets, many state and local governments, as an alternative to layoffs, are considering many ways to decrease costs. Furloughs, a leave of absence without pay, are one method currently being used by many public employers. One advantage of using furloughs versus layoffs is employees are not terminated, yet there is a cost savings as the time off is without pay. Also, when the economy recovers there is no need to rehire and retrain the workforce. However, there are some potential negative impacts with the use of furloughs. One impact it could have is on a member's pension calculation if the furlough were to occur during the member's final average salary (FAS) period.

During the 2009 Legislative Session, the Legislature recognized the potential impacts to a members pension benefit through the use of furloughs to help balance budgets. As a result, the Legislature passed SB 6157 (see Appendix A to see a complete copy of the bill) which allowed the pension benefit calculation to be adjusted for furloughs if the furlough occurred during the member's FAS period. While this did address the problem, it only included the Public Employees' Retirement System (PERS) pension system. Members of the other retirement systems, including LEOFF Plan 2, would not be granted the same benefit calculation adjustment. This difference in policy led the Board to send a letter to the Select Committee on Pension Policy (SCPP) to jointly sponsor legislation similar to SB 6157.

The Legislature did pass a bill in the 2010 Legislative Session, ESSB 6503, which addressed the potential impacts to a member's pension benefit through the use of furloughs for all of the retirement systems. However, those changes only included those members employed by a state agency or institution, which basically excludes most of the LEOFF Plan 2 membership.

Many other states are using furloughs to help balance budgets. For example, in an article by Pauline Vu of Stateline.org, by the end of June 2009 twenty-one states had implemented or would be implementing furloughs. The number of days ranges from as few as two days, to as many as thirty days. Many of the states that are employing furloughs do not apply them to public safety employees such as police officers, fire fighters and correctional officers.

The use of furloughs has resulted in legal challenges across the country. In Prince George County, Maryland, a federal judge ruled against the county's furlough program stating it violated the contract clause of the United States Constitution, which bars states from passing laws impairing the obligation of contracts. Many employees in other states are currently working under expired contracts so they may not be covered under the contracts clause of either the United States Constitution or their state constitution.

Furloughs would have an adverse impact on pensions in most states. Like Washington, if the furlough occurs during the FAS period, it would lower the FAS, and thus lower the pension

benefit for the employee. Delaware has introduced legislation that would prevent furloughs from impacting pension calculations for police and firefighter pensions.

Another point to consider is an employee's status. Looking at the U.S. Department of Labor regulations issued in 2007, an exempt salaried employee is entitled to their full salary in any week in which the employee does any work at all, regardless of the number of hours worked so the impact of furloughs on these employees is unclear.

The legislation that has been introduced to date strictly deals with furloughs as they apply to unpaid leave. In many cases, public agencies will shut down and offer no services for that day. In the case of police and fire stations, to close down for a day and offer no services is not an option. Safety requirements and contract language may limit the ability or effectiveness of using furloughs while still maintaining service. In lieu of furloughs, many employers are negotiating temporary pay reductions or forgoing previously negotiated pay raises in order to meet budget deficits. These types of temporary salary reductions can have the same negative impact to a member's benefit calculation as unpaid leave.

Policy Issues:

One policy issue is to determine whether or not to change the laws to ensure that a member who, a result of the current economic condition does not have their retirement benefit adversely affected if it occurs during their FAS period. It also becomes an equity issue since PERS members would be given relief in this situation, but LEOFF Plan 2 members would not be.

Policy Options:

Option 1 – Introduce Legislation Including all Employers
Under this option the Board would propose legislation to ensure that LEOFF Plan 2 members do not have their pensions reduced because of a salary reduction.

Option 2 – Coordinate with Select Committee on Pension Policy (SCPP)
Under this option the Board would issue a formal letter to the SCPP indicating the need to coordinate legislation with the SCPP.

6. Supporting Information

APPENDIX A: Public Retirement – Compensation Calculation (SB 6157 - Furloughs)

APPENDIX B: Fiscal Note - SB 6157

APPENDIX C: Closing State Agencies (ESSB 6503)

APPENDIX D: Fiscal Note – ESSB 6503

CERTIFICATION OF ENROLLMENT

SENATE BILL 6157

Chapter 430, Laws of 2009

61st Legislature
2009 Regular Session

PUBLIC RETIREMENT--COMPENSATION CALCULATION

EFFECTIVE DATE: 07/26/09

Passed by the Senate April 20, 2009
YEAS 35 NAYS 12

BRAD OWEN

President of the Senate

Passed by the House April 25, 2009
YEAS 94 NAYS 0

FRANK CHOPP

Speaker of the House of Representatives

CERTIFICATE

I, Thomas Hoemann, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SENATE BILL 6157** as passed by the Senate and the House of Representatives on the dates hereon set forth.

THOMAS HOEMANN

Secretary

Approved May 8, 2009, 11:25 a.m.

CHRISTINE GREGOIRE

Governor of the State of Washington

FILED

May 11, 2009

Secretary of State
State of Washington

SENATE BILL 6157

Passed Legislature - 2009 Regular Session

State of Washington 61st Legislature 2009 Regular Session

By Senators Prentice, Tom, Hobbs, and Fraser

Read first time 04/13/09. Referred to Committee on Ways & Means.

AN ACT Relating to the calculation of compensation for public retirement purposes during the 2009-2011 fiscal biennium; and amending RCW 41.40.010.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.40.010 and 2007 c 50 s 4 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1) "Retirement system" means the public employees' retirement system provided for in this chapter.

(2) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(3) "State treasurer" means the treasurer of the state of Washington.

(4)(a) "Employer" for plan 1 members, means every branch, department, agency, commission, board, and office of the state, any political subdivision or association of political subdivisions of the state admitted into the retirement system, and legal entities authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the

term shall also include any labor guild, association, or organization the membership of a local lodge or division of which is comprised of at least forty percent employees of an employer (other than such labor guild, association, or organization) within this chapter. The term may also include any city of the first class that has its own retirement system.

(b) "Employer" for plan 2 and plan 3 members, means every branch, department, agency, commission, board, and office of the state, and any political subdivision and municipal corporation of the state admitted into the retirement system, including public agencies created pursuant to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000, school districts and educational service districts will no longer be employers for the public employees' retirement system plan 2.

(5) "Member" means any employee included in the membership of the retirement system, as provided for in RCW 41.40.023. RCW 41.26.045 does not prohibit a person otherwise eligible for membership in the retirement system from establishing such membership effective when he or she first entered an eligible position.

(6) "Original member" of this retirement system means:

(a) Any person who became a member of the system prior to April 1, 1949;

(b) Any person who becomes a member through the admission of an employer into the retirement system on and after April 1, 1949, and prior to April 1, 1951;

(c) Any person who first becomes a member by securing employment with an employer prior to April 1, 1951, provided the member has rendered at least one or more years of service to any employer prior to October 1, 1947;

(d) Any person who first becomes a member through the admission of an employer into the retirement system on or after April 1, 1951, provided, such person has been in the regular employ of the employer for at least six months of the twelve-month period preceding the said admission date;

(e) Any member who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement becomes entitled to be credited with ten years or more of membership service except that the provisions

relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member;

(f) Any member who has been a contributor under the system for two or more years and who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement has rendered five or more years of service for the state or any political subdivision prior to the time of the admission of the employer into the system; except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member.

(7) "New member" means a person who becomes a member on or after April 1, 1949, except as otherwise provided in this section.

(8)(a) "Compensation earnable" for plan 1 members, means salaries or wages earned during a payroll period for personal services and where the compensation is not all paid in money, maintenance compensation shall be included upon the basis of the schedules established by the member's employer.

(i) "Compensation earnable" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable and the individual shall receive the equivalent service credit;

(B) If a leave of absence is taken by an individual for the purpose of serving in the state legislature, the salary which would have been received for the position from which the leave of absence was taken, shall be considered as compensation earnable if the employee's contribution is paid by the employee and the employer's contribution is paid by the employer or employee;

(C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(D) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(E) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(F) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(ii) "Compensation earnable" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Compensation earnable" for plan 2 and plan 3 members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided above, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature; or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(9)(a) "Service" for plan 1 members, except as provided in RCW 41.40.088, means periods of employment in an eligible position or positions for one or more employers rendered to any employer for which compensation is paid, and includes time spent in office as an elected or appointed official of an employer. Compensation earnable earned in full time work for seventy hours or more in any given calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service except as provided in RCW 41.40.088. Only service credit months and one-quarter service credit months shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter. Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits. Time spent in standby status, whether compensated or not, is not service.

(i) Service by a state employee officially assigned by the state on a temporary basis to assist another public agency, shall be considered as service as a state employee: PROVIDED, That service to any other public agency shall not be considered service as a state employee if such service has been used to establish benefits in any other public retirement system.

(ii) An individual shall receive no more than a total of twelve service credit months of service during any calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for seventy or more hours is rendered.

(iii) A school district employee may count up to forty-five days of sick leave as creditable service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than twenty-two days equals one-quarter service credit month;

(B) Twenty-two days equals one service credit month;

(C) More than twenty-two days but less than forty-five days equals one and one-quarter service credit month.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member in an eligible position or positions for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(i) Service in any state elective position shall be deemed to be full time service, except that persons serving in state elective positions who are members of the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and firefighters' retirement system at the time of election or appointment to such position may elect to continue membership in the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and firefighters' retirement system.

(ii) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

(iii) Up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

(10) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(11) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(12) "Prior service" means all service of an original member rendered to any employer prior to October 1, 1947.

(13) "Membership service" means:

(a) All service rendered, as a member, after October 1, 1947;

(b) All service after October 1, 1947, to any employer prior to the time of its admission into the retirement system for which member and employer contributions, plus interest as required by RCW 41.50.125, have been paid under RCW 41.40.056 or 41.40.057;

(c) Service not to exceed six consecutive months of probationary service rendered after April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of the total amount of the employer's contribution to the retirement fund which would have been required under the law in effect when such probationary service was rendered if the member had been a member during such period, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member;

(d) Service not to exceed six consecutive months of probationary service, rendered after October 1, 1947, and before April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of five percent of such member's salary during said period of probationary service, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member.

(14)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance, pension or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(15) "Regular interest" means such rate as the director may determine.

(16) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(17)(a) "Average final compensation" for plan 1 members, means the annual average of the greatest compensation earnable by a member during any consecutive two year period of service credit months for which service credit is allowed; or if the member has less than two years of

service credit months then the annual average compensation earnable during the total years of service for which service credit is allowed.

(b) "Average final compensation" for plan 2 and plan 3 members, means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.40.710(2) <u>or (c) of this subsection</u>.

<u>(c) In calculating average final compensation under this subsection for a member of plan 1, 2, or 3, the department of retirement systems shall include any compensation forgone by the member during the 2009-2011 fiscal biennium as a result of reduced work hours, voluntary leave without pay, or temporary furloughs if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer.</u>

(18) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(19) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(20) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(21) "Retirement allowance" means the sum of the annuity and the pension.

(22) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(23) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(24) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(25) "Eligible position" means:

(a) Any position that, as defined by the employer, normally requires five or more months of service a year for which regular compensation for at least seventy hours is earned by the occupant thereof. For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position;

(b) Any position occupied by an elected official or person appointed directly by the governor, or appointed by the chief justice of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which compensation is paid.

(26) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (25) of this section.

(27) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

(28) "Totally incapacitated for duty" means total inability to perform the duties of a member's employment or office or any other work for which the member is qualified by training or experience.

(29) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(30) "Director" means the director of the department.

(31) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(32) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(33) "Plan 1" means the public employees' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(34) "Plan 2" means the public employees' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and are not included in plan 3.

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

(36) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(37) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(38) "Index B" means the index for the year prior to index A.

(39) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(40) "Adjustment ratio" means the value of index A divided by index B.

(41) "Annual increase" means, initially, fifty-nine cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination. Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this subsection.

(43) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

Passed by the Senate April 20, 2009.
Passed by the House April 25, 2009.
Approved by the Governor May 8, 2009.
Filed in Office of Secretary of State May 11, 2009.

Multiple Agency Fiscal Note Summary

Bill Number: 6157 SB	**Title:** Publ retirement compensation

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Total $						
Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	800,000	1,800,000	.0	500,000	1,100,000	.0	600,000	1,200,000
Department of Personnel	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Total	**0.0**	**$800,000**	**$1,800,000**	**0.0**	**$500,000**	**$1,100,000**	**0.0**	**$600,000**	**$1,200,000**
Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Pending Distribution

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 24416

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 6157 SB	Title: Publ retirement compensation	Agency: 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

		FY 2010	FY 2011	2009-11	2011-13	2013-15
Fund						
All Other Funds-State	000-1	500,000	500,000	1,000,000	600,000	600,000
General Fund-State	001-1	400,000	400,000	800,000	500,000	600,000
	Total $	900,000	900,000	1,800,000	1,100,000	1,200,000

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/13/2009
Agency Preparation:	Nelsen Dave	Phone: 360-786-6144	Date: 04/18/2009
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 04/18/2009
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 04/20/2009

Request # -1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**4/18/09**	**SB 6157**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2009 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This bill modifies the definition of Average Final Compensation (AFC) for the Public Employees' Retirement System (PERS) to include the salary forgone by members due to taking time off without pay during the 2009-2011 Biennium. This modification only applies to time off taken as an integral part of an employer's effort to reduce expenditures.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$34,695	$15.8	$34,711
Earned Pensions Not Covered by Today's Assets	$3,609	$5.8	$3,614

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	**PERS**	**SERS**	**PSERS**
Employee (Plan 2)	0.01%	0.00%	0.00%
Employer:			
Current Annual Cost	0.01%	0.00%	0.00%
Plan 1 Past Cost	0.01%	0.01%	0.01%
Total	0.02%	0.01%	0.01%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.8	$0.5	$5.1
Total Employer	$3.7	$2.4	$22.9

Please see the remainder of this fiscal note for additional detail including how the cost could increase above the amounts listed above.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This bill impacts the PERS Plans 1, 2, and 3 by modifying the definition of AFC. The new definition of AFC for purposes of calculating a member's retirement benefit includes salary forgone by the member during the 2009-2011 Biennium due to time off without pay. However, this modification to the AFC only applies to time off without pay taken as an integral part of the employer's efforts to reduce expenses.

Effective Date: 90 days after session.

What Is The Current Situation?

AFC for PERS Plan 1 members is the annual average of the greatest salary earned during a two year period where the members earned service credit in each month of that period. For PERS Plan 2/3 members, AFC is the annual average of the greatest salary earned during a five year period where the members earned service credit in each month of that period.

PERS members who take time off without pay may be able to restore the missing service and/or compensation upon return to employment, depending on the member's plan and the reason for the time off. For example, all members can generally restore service and salary for time off to serve in the armed forces. However, only Plan 2 or Plan 3 members can restore service for other voluntary time off without pay.

Who Is Impacted And How?

We estimate this bill could affect all 158,022 active members of PERS through improved benefits. With the absence of a statewide furlough policy, we believe at least 19,000 members will be affected by taking ten furlough days in each year of the upcoming biennium. We used this as the assumption for our pricing.

We believe a reasonable estimate of a statewide furlough policy would be anywhere from 39,506 to 158,022 members taking ten furlough days in each year of the upcoming biennium. We priced these two scenarios in the How The Results Change When The Assumptions Change section (AKA sensitivity analysis).

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill changes the law to increase the AFC, and retirement benefit, of anyone who takes cost-saving furloughs over the next two years. Any increase in ultimate retirement benefits due to this law change would be considered a cost to the pension system. The AFC is used in the retirement benefit calculation through termination, retirement, disability, and death.

Who Will Pay For These Costs?

These costs will be funded consistent with the normal pension funding policy of PERS. All employers of PERS, School Employees' Retirement System (SERS), and Public Safety Employees' Retirement System (PSERS) members will pay a larger Unfunded Actuarial Accrued Liability (UAAL) contribution rate due to the increase in costs from PERS Plan 1 members. Members of PERS Plan 2 and employers of members in PERS Plans 2/3 will share equally in contribution rate increases due to the costs from PERS Plans 2/3 members.

HOW WE VALUED THESE COSTS

Assumptions We Made

For the pricing of the fiscal note we assumed:

- Twelve percent of the members in PERS (both State and local) would take ten furlough days each of the next two years, absent a statewide furlough policy.

For the low-cost estimate we assumed:

- Twenty-five percent of the members in PERS (both State and local) would take ten furlough days each of the next two years, based upon a statewide furlough policy.

For the high-cost estimate we assumed:

- Every member in PERS (both State and local) would take ten furlough days each of the next two years, based upon a statewide furlough policy.

Otherwise, we developed these costs using the same assumptions as disclosed in the June 30, 2007, Actuarial Valuation Report (AVR).

How We Applied These Assumptions

We determined the cost of this bill when both one-quarter (low-cost estimate) and the full population (high-cost estimate) took ten furlough days for the next two years. We decided that was a reasonable range for this bill if a furlough policy were announced.

However, since a statewide furlough policy has not been announced, we determined that 12 percent of the PERS population would need to take ten furlough days in order to impact supplemental contribution rates in the 2009-2011 Biennium. We concluded that 12 percent of the population taking furloughs is likely based on King County (3.5 percent of PERS) already announcing a 10-day furlough policy.

The method we used for calculating the cost of our scenarios is outlined below:

We created a new "base" which reflects the future benefits expected to be earned based on average final compensation excluding missed furlough pay.

To do this we first altered the projected salary stream of the affected members. Each affected member's salary would decrease by 2/52 in the first year to reflect two work weeks of time off. We then increased every member's salary by 4.25 percent in the second year to reflect assumed general salary growth. We then increased every member's salary by 8.42 percent in the third year to reflect assumed general salary growth and the return to a full annual salary. Please see the table below for an example of the salary streams under this pricing.

	Salary Example		
	Year 1	Year 2	Year 3
With Furlough	$48,077	$50,120	$54,340
Without Furlough	$50,000	$52,125	$54,340

We then measured the increase in liability between the "base" and the "pricing" – where the "pricing" is consistent with our AVR. The increase in liability emerges due to a higher AFC in the calculation of retirement benefits. We discounted the liability increase by two years to produce a liability change consistent with the liabilities as of the valuation date.

Otherwise, we developed these costs using the same methods as disclosed in the AVR.

Special Data Needed

We relied on information contained in the 2009 King County budget that requires ten county-wide furlough days in the 2009 budget year. King County represents approximately 3.5 percent of the total PERS population.

We developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding by increasing the present value of future benefits payable under the system as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	$5.8	$14,067
PERS 2/3	20,634	10.0	20,644
PERS Total	**$34,695**	**$15.8**	**$34,711**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$5.8**	**$3,614**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	$5.7	$3,995
PERS 2/3	(2,470)	8.4	(2,461)
PERS Total	**$1,520**	**$14.1**	**$1,534**

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown below that applies in the current biennium. However, we will use the un-rounded rate increase to measure the budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)			
System/Plan	**PERS**	**SERS**	**PSERS**
Current Members			
Employee (Plan 2)	0.008%	0.000%	0.000%
Employer:			
Normal Cost	0.008%	0.000%	0.000%
Plan 1 UAAL	0.005%	0.005%	0.005%
Total	0.013%	0.005%	0.005%
New Entrants*			
Employee (Plan 2)	0.000%	0.000%	0.000%
Employer:			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	0.005%	0.005%	0.005%
Total	0.005%	0.005%	0.005%

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets And Employees

	Budget Impacts			
(Dollars in Millions)	**PERS**	**SERS**	**PSERS**	**Total**
2009-2011				
General Fund	$0.7	$0.1	$0.0	$0.8
Non-General Fund	1.0	0.0	0.0	1.0
Total State	**$1.6**	**$0.1**	**$0.0**	**$1.8**
Local Government	1.7	0.2	0.0	1.9
Total Employer	**$3.4**	**$0.3**	**$0.0**	**$3.7**
Total Employee	**$1.3**	**$0.0**	**$0.0**	**$1.3**
2011-2013				
General Fund	$0.4	$0.1	$0.0	$0.5
Non-General Fund	0.6	0.0	0.0	0.6
Total State	**$1.1**	**$0.1**	**$0.0**	**$1.2**
Local Government	1.1	0.1	0.0	1.2
Total Employer	**$2.2**	**$0.2**	**$0.0**	**$2.4**
Total Employee	**$1.0**	**$0.0**	**$0.0**	**$1.0**
2009-2034				
General Fund	$4.2	$0.7	$0.1	$5.1
Non-General Fund	6.0	0.0	0.0	6.0
Total State	**$10.2**	**$0.7**	**$0.2**	**$11.0**
Local Government	10.9	0.9	0.0	11.8
Total Employer	**$21.0**	**$1.7**	**$0.2**	**$22.9**
Total Employee	**$8.6**	**$0.0**	**$0.0**	**$8.6**

Note: Totals may not agree due to rounding.

The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the system will vary from those presented in the AVR or this fiscal note to the extent that actual experience differs from the actuarial assumptions. If the State adopts a furlough policy in the 2009-2011 Biennium, the State Actuary may calculate an additional supplemental contribution rate increase for this bill.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The cost of this bill could increase if the State adopts a furlough policy and/or actual experience exceeds the amount assumed in this pricing. The tables below show the impacts of this proposal when we change the assumed percentage of members who will take ten furlough days in the next two years.

- **Low Estimate –** 25 percent assumption
- **High Estimate –** 100 percent assumption

How The Liabilities Could Change

Impact on Pension Liability – Low Estimate			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	$12.5	$14,074
PERS 2/3	20,634	21.5	20,656
PERS Total	**$34,695**	**$34.1**	**$34,729**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$12.5**	**$3,621**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	$12.2	$4,002
PERS 2/3	(2,470)	18.2	(2,451)
PERS Total	**$1,520**	**$30.5**	**$1,551**

Note: Totals may not agree due to rounding.

Impact on Pension Liability – High Estimate			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	$50.2	$14,111
PERS 2/3	20,634	86.1	20,721
PERS Total	**$34,695**	**$136.3**	**$34,832**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$50.2**	**$3,659**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	$48.9	$4,039
PERS 2/3	(2,470)	72.9	(2,397)
PERS Total	**$1,520**	**$121.8**	**$1,642**

Note: Totals may not agree due to rounding.

How Contribution Rates Could Change

Impact on Contribution Rates – Low Estimate (Effective 9/1/2009)			
System/Plan	**PERS**	**SERS**	**PSERS**
Current Members			
Employee (Plan 2)	0.017%	0.000%	0.000%
Employer:			
Normal Cost	0.017%	0.000%	0.000%
Plan 1 UAAL	0.011%	0.011%	0.011%
Total	0.028%	0.011%	0.011%
New Entrants*			
Employee (Plan 2)	0.000%	0.000%	0.000%
Employer:			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	0.011%	0.011%	0.011%
Total	0.011%	0.011%	0.011%

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

Impact on Contribution Rates – High Estimate (Effective 9/1/2009)			
System/Plan	**PERS**	**SERS**	**PSERS**
Current Members			
Employee (Plan 2)	0.069%	0.000%	0.000%
Employer:			
Normal Cost	0.069%	0.000%	0.000%
Plan 1 UAAL	0.043%	0.043%	0.043%
Total	0.113%	0.043%	0.043%
New Entrants*			
Employee (Plan 2)	0.000%	0.000%	0.000%
Employer:			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	0.043%	0.043%	0.043%
Total	0.043%	0.043%	0.043%

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate*

How This Could Impact Budgets And Employees

Budget Impacts - Low Estimate				
(Dollars in Millions)	**PERS**	**SERS**	**PSERS**	**Total**
2009-2011				
General Fund	$1.0	$0.1	$0.0	$1.2
Non-General Fund	1.4	0.0	0.0	1.4
Total State	**$2.4**	**$0.1**	**$0.0**	**$2.6**
Local Government	2.6	0.2	0.0	2.8
Total Employer	**$5.1**	**$0.3**	**$0.0**	**$5.4**
Total Employee	**$2.6**	**$0.0**	**$0.0**	**$2.6**
2011-2013				
General Fund	$0.9	$0.2	$0.0	$1.1
Non-General Fund	1.3	0.0	0.0	1.4
Total State	**$2.3**	**$0.2**	**$0.0**	**$2.5**
Local Government	2.5	0.2	0.0	2.7
Total Employer	**$4.7**	**$0.4**	**$0.0**	**$5.2**
Total Employee	**$2.1**	**$0.0**	**$0.0**	**$2.1**
2009-2034				
General Fund	$8.6	$1.4	$0.3	$10.3
Non-General Fund	12.3	0.0	0.0	12.3
Total State	**$20.9**	**$1.4**	**$0.3**	**$22.6**
Local Government	22.3	1.8	0.1	24.2
Total Employer	**$43.2**	**$3.2**	**$0.4**	**$46.8**
Total Employee	**$18.4**	**$0.0**	**$0.0**	**$18.4**

Note: Totals may not agree due to rounding.

Budget Impacts - High Estimate				
(Dollars in Millions)	**PERS**	**SERS**	**PSERS**	**Total**
2009-2011				
General Fund	$3.7	$0.6	$0.1	$4.4
Non-General Fund	5.3	0.0	0.0	5.3
Total State	**$9.0**	**$0.6**	**$0.1**	**$9.6**
Local Government	9.6	0.7	0.0	10.3
Total Employer	**$18.6**	**$1.3**	**$0.1**	**$20.0**
Total Employee	**$9.1**	**$0.0**	**$0.0**	**$9.1**
2011-2013				
General Fund	$3.8	$0.7	$0.1	$4.6
Non-General Fund	5.4	0.0	0.0	5.4
Total State	**$9.2**	**$0.7**	**$0.1**	**$10.0**
Local Government	9.8	0.8	0.0	10.7
Total Employer	**$19.0**	**$1.5**	**$0.2**	**$20.6**
Total Employee	**$8.2**	**$0.0**	**$0.0**	**$8.2**
2009-2034				
General Fund	$34.1	$5.7	$1.1	$40.9
Non-General Fund	48.6	0.0	0.1	48.7
Total State	**$82.6**	**$5.7**	**$1.2**	**$89.6**
Local Government	88.4	7.1	0.3	95.8
Total Employer	**$171.0**	**$12.9**	**$1.5**	**$185.4**
Total Employee	**$72.1**	**$0.0**	**$0.0**	**$72.1**

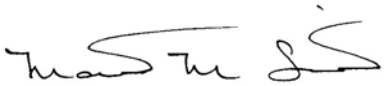
Note: Totals may not agree due to rounding.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2009 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this fiscal note.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Matthew M. Smith, FCA, EA, MAAA
State Actuary

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Individual State Agency Fiscal Note

Bill Number: 6157 SB	Title: Publ retirement compensation	Agency: 111-Department of Personnel

Part I: Estimates

[X] **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/13/2009
Agency Preparation:	Kelly Moore	Phone: 360-664-6314	Date: 04/20/2009
Agency Approval:	Kelly Moore	Phone: 360-664-6314	Date: 04/20/2009
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 04/20/2009

Request # 30-1

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part IV: Capital Budget Impact

Individual State Agency Fiscal Note

Bill Number: 6157 SB	Title: Publ retirement compensation	Agency: 124-Department of Retirement Systems

Part I: Estimates

[X] **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/13/2009
Agency Preparation:	Michelle Hardesty	Phone: 360-664-7193	Date: 04/17/2009
Agency Approval:	Cathy Cale	Phone: 360-664-7305	Date: 04/17/2009
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 04/17/2009

Request # 09-065-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill allows the Average Final Compensation (AFC) for members of the Public Employees' Retirement Systems (PERS) to include compensation lost due to the result of reduced hours, voluntary leave without pay or temporary furloughs during the 2009-11 biennium if the reduced compensation was an integral part of the employer's expenditure reduction efforts.

This change does not have a fiscal impact on the Department of Retirement Systems (DRS) because review/confirmation of the AFC is a normal step in processing a member's retirement. DRS assumes that employers will report the actual (reduced) compensation received by the member, and member and employer contributions will be based on that compensation.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

No impact.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No impact.

CERTIFICATION OF ENROLLMENT

ENGROSSED SUBSTITUTE SENATE BILL 6503

Chapter 32, Laws of 2010

(partial veto)

61st Legislature
2010 1st Special Session

STATE AGENCIES--REDUCTION IN OPERATING EXPENSES

EFFECTIVE DATE: 04/27/10

Passed by the Senate April 10, 2010
YEAS 26 NAYS 14

BRAD OWEN

President of the Senate

Passed by the House April 2, 2010
YEAS 50 NAYS 38

FRANK CHOPP

Speaker of the House of Representatives

Approved April 27, 2010, 2:17 p.m., with the exception of Section 2 which is vetoed.

CHRISTINE GREGOIRE

Governor of the State of Washington

CERTIFICATE

I, Thomas Hoemann, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **ENGROSSED SUBSTITUTE SENATE BILL 6503** as passed by the Senate and the House of Representatives on the dates hereon set forth.

THOMAS HOEMANN

Secretary

FILED

April 28, 2010

Secretary of State
State of Washington

ENGROSSED SUBSTITUTE SENATE BILL 6503

AS AMENDED BY THE HOUSE

Passed Legislature - 2010 1st Special Session

State of Washington 61st Legislature 2010 Regular Session

By Senate Ways & Means (originally sponsored by Senator Prentice)

READ FIRST TIME 01/22/10.

AN ACT Relating to the operations of state agencies; amending RCW 42.04.060 and 41.04.665; reenacting and amending RCW 41.26.030, 41.32.010, 41.37.010, and 43.43.120; adding a new section to chapter 41.80 RCW; creating new sections; providing an expiration date; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** The legislature declares that unprecedented revenue shortfalls necessitate immediate action to reduce expenditures during the 2009-2011 fiscal biennium. From the effective date of this section, it is the intent of the legislature that state agencies of the legislative branch, judicial branch, and executive branch including institutions of higher education, shall achieve a reduction in government operating expenses as provided in this act. It is the legislature's intent that, to the extent that the reductions in expenditures reduce compensation costs, agencies and institutions shall strive to preserve family wage jobs by reducing the impact of temporary layoffs on lower-wage jobs.

***NEW SECTION.** Sec. 2. State agencies and institutions shall achieve reductions in compensation expenditures for employees employed by general government state agencies in Washington management services, or exempt positions as managers, as defined in RCW 41.06.022, as provided in the omnibus appropriations act. These reductions shall be sufficient to attain a savings of $10 million general fund--state for fiscal year 2011. Savings in other funds and accounts shall be achieved as provided in the omnibus appropriations act.*

**Sec. 2 was vetoed. See message at end of chapter.*

NEW SECTION. **Sec. 3.** (1)(a) The office of financial management shall certify to each executive branch state agency and institution of higher education the compensation reduction amount to be achieved by that agency or institution. Each agency and institution shall achieve compensation expenditure reductions as provided in the omnibus appropriations act.

(b) Each executive branch state agency other than institutions of higher education may submit to the office of financial management a compensation reduction plan to achieve the cost reductions as provided in the omnibus appropriations act. The compensation reduction plan of each executive branch agency may include, but is not limited to, employee leave without pay, including additional mandatory and voluntary temporary layoffs, reductions in the agency workforce, compensation reductions, and reduced work hours, as well as voluntary retirement, separation, and other incentive programs authorized by section 912, chapter 564, Laws of 2009. The amount of compensation cost reductions to be achieved by each agency shall be adjusted to reflect voluntary and mandatory temporary layoffs at the agency during the 2009-2011 fiscal biennium and implemented prior to January 1, 2010, but not adjusted by other compensation reduction plans adopted as a result of the enactment of chapter 564, Laws of 2009, or the enactment of other compensation cost reduction measures applicable to the 2009-2011 fiscal biennium.

(c) Each institution of higher education must submit to the office of financial management a compensation and operations reduction plan to achieve at least the cost reductions as provided in the omnibus appropriations act. For purposes of the reduction plan, the state board of community and technical colleges shall submit a single plan on behalf of all community and technical colleges. The reduction plan of

each institution may include, but is not limited to, employee leave without pay, including mandatory and voluntary temporary layoffs, reductions in the institution workforce, compensation reductions, and reduced work hours, as well as voluntary retirement, separation, incentive programs authorized by section 912, chapter 564, Laws of 2009, as well as other reductions to the cost of operations. The amount of cost reductions to be achieved by each institution shall be adjusted to reflect voluntary and mandatory temporary layoffs at the institution during the 2009-2011 fiscal biennium and implemented prior to January 1, 2010, but not adjusted by other compensation reduction plans adopted as a result of the enactment of chapter 564, Laws of 2009, or the enactment of other compensation cost reduction measures applicable to the 2009-2011 fiscal biennium.

(d) The director of financial management shall review, approve, and submit to the legislative fiscal committees those executive branch state agencies and higher education institution plans that achieves the cost reductions as provided in the omnibus appropriations act. For those executive branch state agencies and institutions of higher education that do not have an approved compensation and operations reduction plan, the institution shall be closed on the dates specified in subsection (2) of this section.

(e) For each agency of the legislative branch, the chief clerk of the house of representatives and the secretary of the senate shall review and approve a plan of employee mandatory and voluntary leave for the 2009-2011 fiscal biennium that achieves the cost reductions as provided in the omnibus appropriations act. The amount of compensation cost reductions to be achieved shall be adjusted, if necessary, to reflect voluntary and mandatory temporary layoffs at the agencies during the 2009-2011 fiscal biennium and implemented prior to January 1, 2010.

(f) For each agency of the judicial branch, the supreme court shall review and approve a plan of employee mandatory and voluntary leave for the 2009-2011 fiscal biennium that achieve the cost reductions as provided in the omnibus appropriations act. The amount of compensation cost reductions to be achieved shall be adjusted, if necessary, to reflect voluntary and mandatory temporary layoffs at the agencies during the 2009-2011 fiscal biennium and implemented prior to January 1, 2010.

(2) Each state agency of the executive, legislative, and judicial branch, and any institution that does not have an approved plan in accordance with subsection (1) of this section shall be closed on the following dates in addition to the legal holidays specified in RCW 1.16.050:

(a) Monday, July 12, 2010;

(b) Friday, August 6, 2010;

(c) Tuesday, September 7, 2010;

(d) Monday, October 11, 2010;

(e) Monday, December 27, 2010;

(f) Friday, January 28, 2011;

(g) Tuesday, February 22, 2011;

(h) Friday, March 11, 2011;

(i) Friday, April 22, 2011;

(j) Friday, June 10, 2011.

(3) If the closure of state agencies or institutions under subsection (2) of this section prevents the performance of any action, the action shall be considered timely if performed on the next business day.

(4) The following activities of state agencies and institutions of higher education are exempt from subsections (1) and (2) of this section:

(a) Direct custody, supervision, and patient care in: (i) Corrections; (ii) juvenile rehabilitation; (iii) institutional care of veterans, or individuals with mental illness, and individuals with developmental disabilities; (iv) state hospitals, the University of Washington medical center, and Harborview medical center; (v) the special commitment center; (vi) the school for the blind; (vii) the state center for childhood deafness and hearing loss; and (viii) the Washington youth academy;

(b) Direct protective services to children and other vulnerable populations, child support enforcement, disability determination services, complaint investigators, and residential care licensors and surveyors in the department of social and health services and the department of health;

(c) Washington state patrol investigative services and field enforcement;

(d) Hazardous materials response or emergency response and cleanup;

(e) Emergency public health and patient safety response and the public health laboratory;

(f) Military operations and emergency management within the military department;

(g) Firefighting;

(h) Enforcement officers in the department of fish and wildlife, the liquor control board, the gambling commission, the department of financial institutions, and the department of natural resources;

(i) State parks operated by the parks and recreation commission;

(j) In institutions of higher education, classroom instruction, operations not funded from state funds or tuition, campus police and security, emergency management and response, work performed by student employees if the duties were not previously assigned to nonstudents during the current or prior school year, and student health care;

(k) Operations of liquor control board business enterprises and games conducted by the state lottery;

(l) Agricultural commodity commissions and boards, and agricultural inspection programs operated by the department of agriculture;

(m) The unemployment insurance program and reemployment services of the employment security department;

(n) The workers' compensation program and workplace safety and health compliance activities of the department of labor and industries;

(o) The operation, maintenance, and construction of state ferries and state highways;

(p) The department of revenue;

(q) Licensing service offices in the department of licensing that are open no more than two days per week, and no licensing service office closures may occur on Saturdays as a result of this section;

(r) The governor, lieutenant governor, legislative agencies, and the office of financial management, during sessions of the legislature under Article II, section 12 of the state Constitution and the twenty-day veto period under Article IV, section 12 of the state Constitution;

(s) The office of the attorney general, except for management and administrative functions not directly related to civil, criminal, or administrative actions;

(t) The labor relations office of the office of financial management through November 1, 2010;

(u) The minimal use of state employees on the specified closure dates as necessary to protect public assets and information technology systems, and to maintain public safety; and

(v) The operations of the office of the insurance commissioner that are funded by industry regulatory fees.

(5)(a) The closure of an office of a state agency or institution of higher education under this section shall result in the temporary layoff of the employees of the agency or institution. The compensation of the employees shall be reduced proportionately to the duration of the temporary layoff. Temporary layoffs under this section shall not affect the employees' vacation leave accrual, seniority, health insurance, or sick leave credits. For the purposes of chapter 430, Laws of 2009, the compensation reductions under this section are deemed to be an integral part of an employer's expenditure reduction efforts and shall not result in the loss of retirement benefits in any state defined benefit retirement plan for an employee whose period of average final compensation includes a portion of the period from the effective date of this section through June 30, 2011.

(b)(i) During the closure of an office or institution under this section, any employee with a monthly full-time equivalent salary of two thousand five hundred dollars or less may, at the employee's option, use accrued vacation leave in lieu of temporary layoff during the closure. Solely for this purpose, and during the 2009-2011 fiscal biennium only, the department of personnel shall adopt rules to permit employees with less than six months of continuous state employment to use accrued vacation leave.

(ii) If an employee with a monthly full-time equivalent salary of two thousand five hundred dollars or less has no accrued vacation leave, that employee may use shared leave, if approved by the agency director, and if made available through donations under RCW 41.04.665 in lieu of temporary layoff during the closure.

(6) Except as provided in subsection (4) of this section, for employees not scheduled to work on a day specified in subsection (2) of this section, the employing agency must designate an alternative day during that month on which the employee is scheduled to work that the employee will take temporary leave without pay.

(7) To the extent that the implementation of this section is subject to collective bargaining under chapter 41.80 RCW, the

bargaining shall be conducted pursuant to section 4 of this act. To the extent that the implementation of this section is subject to collective bargaining under chapters 28B.52, 41.56, 41.76, or 47.64 RCW, the bargaining shall be conducted pursuant to these chapters.

(8) For all or a portion of the employees of an agency of the executive branch, the office of financial management may approve the substitution of temporary layoffs on an alternative date during that month for any date specified in subsection (2) of this section as necessary for the critical work of any agency.

NEW SECTION. **Sec. 4.** A new section is added to chapter 41.80 RCW to read as follows:

(1) To the extent that the implementation of section 3 of this act is subject to collective bargaining:

(a) For institutions of higher education that have elected to have negotiations conducted by the governor or governor's designee in accordance with RCW 41.80.010(4), and that have an approved compensation reduction plan under section 3(1) of this act, negotiations regarding impacts of the compensation reduction plan shall be conducted between the governor or governor's designee and a coalition at each college, college district, or university of all of the exclusive bargaining representatives subject to chapter 41.80 RCW;

(b) For institutions of higher education that have elected to have negotiations conducted by the governor or governor's designee in accordance with RCW 41.80.010(4), and that do not have an approved compensation reduction plan under section 3(1) of this act, negotiations regarding impacts of the temporary layoffs under section 3(2) of this act shall be conducted between the governor or governor's designee and one coalition of all of the exclusive bargaining representatives subject to chapter 41.80 RCW;

(c) For institutions of higher education that have not elected to have negotiations conducted by the governor or governor's designee under RCW 41.80.010(4), negotiations regarding impacts of section 3 of this act shall be conducted between each institution of higher education and the exclusive bargaining representatives;

(d) For agencies that have an approved compensation reduction plan under section 3(1) of this act, negotiations regarding impacts of the

compensation reduction plan shall be conducted between the governor or governor's designee and a coalition at each agency of all of the exclusive bargaining representatives subject to chapter 41.80 RCW; and

(e) For agencies that do not have an approved compensation reduction plan under section 3(1) of this act, negotiations regarding impacts of the temporary layoffs under section 3(2) of this act shall be conducted between the governor or governor's designee and the exclusive bargaining representatives subject to chapter 41.80 RCW.

(2) This section expires June 30, 2011.

Sec. 5. RCW 42.04.060 and 2009 c 428 s 1 are each amended to read as follows:

Except as provided in section 3 of this act, all state elective and appointive officers shall keep their offices open for the transaction of business for a minimum of forty hours per week, except weeks that include state legal holidays. Customary business hours must be posted on the agency or office's web site and made known by other means designed to provide the public with notice.

((~~This section shall not apply to the courts of record of this state or to their officers nor to the office of the attorney general and the lieutenant governor.~~))

Sec. 6. RCW 41.26.030 and 2009 c 523 s 3 are each reenacted and amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1) "Accumulated contributions" means the employee's contributions made by a member, including any amount paid under RCW 41.50.165(2), plus accrued interest credited thereon.

(2) "Actuarial reserve" means a method of financing a pension or retirement plan wherein reserves are accumulated as the liabilities for benefit payments are incurred in order that sufficient funds will be available on the date of retirement of each member to pay the member's future benefits during the period of retirement.

(3) "Actuarial valuation" means a mathematical determination of the financial condition of a retirement plan. It includes the computation of the present monetary value of benefits payable to present members, and the present monetary value of future employer and employee

contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal from service, salary and interest earned on investments.

(4)(a) "Basic salary" for plan 1 members, means the basic monthly rate of salary or wages, including longevity pay but not including overtime earnings or special salary or wages, upon which pension or retirement benefits will be computed and upon which employer contributions and salary deductions will be based.

(b) "Basic salary" for plan 2 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay. In any year in which a member serves in the legislature the member shall have the option of having such member's basic salary be the greater of:

(i) The basic salary the member would have received had such member not served in the legislature; or

(ii) Such member's actual basic salary received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because basic salary under (b)(i) of this subsection is greater than basic salary under (b)(ii) of this subsection shall be paid by the member for both member and employer contributions.

(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance, disability allowance, death benefit, or any other benefit described herein.

(b) "Beneficiary" for plan 2 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6)(a) "Child" or "children" means an unmarried person who is under the age of eighteen or mentally or physically disabled as determined by the department, except a person who is disabled and in the full time care of a state institution, who is:

(i) A natural born child;

(ii) A stepchild where that relationship was in existence prior to the date benefits are payable under this chapter;

(iii) A posthumous child;

(iv) A child legally adopted or made a legal ward of a member prior to the date benefits are payable under this chapter; or

(v) An illegitimate child legitimized prior to the date any benefits are payable under this chapter.

(b) A person shall also be deemed to be a child up to and including the age of twenty years and eleven months while attending any high school, college, or vocational or other educational institution accredited, licensed, or approved by the state, in which it is located, including the summer vacation months and all other normal and regular vacation periods at the particular educational institution after which the child returns to school.

(7) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(8) "Director" means the director of the department.

(9) "Disability board" for plan 1 members means either the county disability board or the city disability board established in RCW 41.26.110.

(10) "Disability leave" means the period of six months or any portion thereof during which a member is on leave at an allowance equal to the member's full salary prior to the commencement of disability retirement. The definition contained in this subsection shall apply only to plan 1 members.

(11) "Disability retirement" for plan 1 members, means the period following termination of a member's disability leave, during which the member is in receipt of a disability retirement allowance.

(12) "Domestic partners" means two adults who have registered as domestic partners under RCW 26.60.020.

(13) "Employee" means any law enforcement officer or firefighter as defined in subsections (16) and (18) of this section.

(14)(a) "Employer" for plan 1 members, means the legislative authority of any city, town, county, or district or the elected officials of any municipal corporation that employs any law enforcement officer and/or firefighter, any authorized association of such municipalities, and, except for the purposes of RCW 41.26.150, any labor guild, association, or organization, which represents the

firefighters or law enforcement officers of at least seven cities of over 20,000 population and the membership of each local lodge or division of which is composed of at least sixty percent law enforcement officers or firefighters as defined in this chapter.

(b) "Employer" for plan 2 members, means the following entities to the extent that the entity employs any law enforcement officer and/or firefighter:

(i) The legislative authority of any city, town, county, or district;

(ii) The elected officials of any municipal corporation;

(iii) The governing body of any other general authority law enforcement agency; or

(iv) A four-year institution of higher education having a fully operational fire department as of January 1, 1996.

(15)(a) "Final average salary" for plan 1 members, means (i) for a member holding the same position or rank for a minimum of twelve months preceding the date of retirement, the basic salary attached to such same position or rank at time of retirement; (ii) for any other member, including a civil service member who has not served a minimum of twelve months in the same position or rank preceding the date of retirement, the average of the greatest basic salaries payable to such member during any consecutive twenty-four month period within such member's last ten years of service for which service credit is allowed, computed by dividing the total basic salaries payable to such member during the selected twenty-four month period by twenty-four; (iii) in the case of disability of any member, the basic salary payable to such member at the time of disability retirement; (iv) in the case of a member who hereafter vests pursuant to RCW 41.26.090, the basic salary payable to such member at the time of vesting.

(b) "Final average salary" for plan 2 members, means the monthly average of the member's basic salary for the highest consecutive sixty service credit months of service prior to such member's retirement, termination, or death. Periods constituting authorized unpaid leaves of absence may not be used in the calculation of final average salary.

<u>(c) In calculating final average salary under (a) or (b) of this subsection, the department of retirement systems shall include any compensation forgone by a member employed by a state agency or institution during the 2009-2011 fiscal biennium as a result of reduced</u>

work hours, mandatory or voluntary leave without pay, or temporary layoffs if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer.

(16) "Firefighter" means:

(a) Any person who is serving on a full time, fully compensated basis as a member of a fire department of an employer and who is serving in a position which requires passing a civil service examination for firefighter, and who is actively employed as such;

(b) Anyone who is actively employed as a full time firefighter where the fire department does not have a civil service examination;

(c) Supervisory firefighter personnel;

(d) Any full time executive secretary of an association of fire protection districts authorized under RCW 52.12.031. The provisions of this subsection (16)(d) shall not apply to plan 2 members;

(e) The executive secretary of a labor guild, association or organization (which is an employer under ((~~RCW 41.26.030(14) as now or hereafter amended~~)) subsection (14) of this section), if such individual has five years previous membership in a retirement system established in chapter 41.16 or 41.18 RCW. The provisions of this subsection (16)(e) shall not apply to plan 2 members;

(f) Any person who is serving on a full time, fully compensated basis for an employer, as a fire dispatcher, in a department in which, on March 1, 1970, a dispatcher was required to have passed a civil service examination for firefighter;

(g) Any person who on March 1, 1970, was employed on a full time, fully compensated basis by an employer, and who on May 21, 1971, was making retirement contributions under the provisions of chapter 41.16 or 41.18 RCW; and

(h) Any person who is employed on a full-time, fully compensated basis by an employer as an emergency medical technician.

(17) "General authority law enforcement agency" means any agency, department, or division of a municipal corporation, political subdivision, or other unit of local government of this state, and any agency, department, or division of state government, having as its primary function the detection and apprehension of persons committing infractions or violating the traffic or criminal laws in general, but not including the Washington state patrol. Such an agency, department, or division is distinguished from a limited authority law enforcement

agency having as one of its functions the apprehension or detection of persons committing infractions or violating the traffic or criminal laws relating to limited subject areas, including but not limited to, the state departments of natural resources and social and health services, the state gambling commission, the state lottery commission, the state parks and recreation commission, the state utilities and transportation commission, the state liquor control board, and the state department of corrections.

(18) "Law enforcement officer" beginning January 1, 1994, means any person who is commissioned and employed by an employer on a full time, fully compensated basis to enforce the criminal laws of the state of Washington generally, with the following qualifications:

(a) No person who is serving in a position that is basically clerical or secretarial in nature, and who is not commissioned shall be considered a law enforcement officer;

(b) Only those deputy sheriffs, including those serving under a different title pursuant to county charter, who have successfully completed a civil service examination for deputy sheriff or the equivalent position, where a different title is used, and those persons serving in unclassified positions authorized by RCW 41.14.070 except a private secretary will be considered law enforcement officers;

(c) Only such full time commissioned law enforcement personnel as have been appointed to offices, positions, or ranks in the police department which have been specifically created or otherwise expressly provided for and designated by city charter provision or by ordinance enacted by the legislative body of the city shall be considered city police officers;

(d) The term "law enforcement officer" also includes the executive secretary of a labor guild, association or organization (which is an employer under ((~~RCW 41.26.030(14)~~)) subsection (14) of this section) if that individual has five years previous membership in the retirement system established in chapter 41.20 RCW. The provisions of this subsection (18)(d) shall not apply to plan 2 members; and

(e) The term "law enforcement officer" also includes a person employed on or after January 1, 1993, as a public safety officer or director of public safety, so long as the job duties substantially involve only either police or fire duties, or both, and no other duties in a city or town with a population of less than ten thousand. The

provisions of this subsection (18)(e) shall not apply to any public safety officer or director of public safety who is receiving a retirement allowance under this chapter as of May 12, 1993.

(19) "Medical services" for plan 1 members, shall include the following as minimum services to be provided. Reasonable charges for these services shall be paid in accordance with RCW 41.26.150.

(a) Hospital expenses: These are the charges made by a hospital, in its own behalf, for

(i) Board and room not to exceed semiprivate room rate unless private room is required by the attending physician due to the condition of the patient.

(ii) Necessary hospital services, other than board and room, furnished by the hospital.

(b) Other medical expenses: The following charges are considered "other medical expenses", provided that they have not been considered as "hospital expenses".

(i) The fees of the following:

(A) A physician or surgeon licensed under the provisions of chapter 18.71 RCW;

(B) An osteopathic physician and surgeon licensed under the provisions of chapter 18.57 RCW;

(C) A chiropractor licensed under the provisions of chapter 18.25 RCW.

(ii) The charges of a registered graduate nurse other than a nurse who ordinarily resides in the member's home, or is a member of the family of either the member or the member's spouse.

(iii) The charges for the following medical services and supplies:

(A) Drugs and medicines upon a physician's prescription;

(B) Diagnostic X-ray and laboratory examinations;

(C) X-ray, radium, and radioactive isotopes therapy;

(D) Anesthesia and oxygen;

(E) Rental of iron lung and other durable medical and surgical equipment;

(F) Artificial limbs and eyes, and casts, splints, and trusses;

(G) Professional ambulance service when used to transport the member to or from a hospital when injured by an accident or stricken by a disease;

(H) Dental charges incurred by a member who sustains an accidental injury to his or her teeth and who commences treatment by a legally licensed dentist within ninety days after the accident;

(I) Nursing home confinement or hospital extended care facility;

(J) Physical therapy by a registered physical therapist;

(K) Blood transfusions, including the cost of blood and blood plasma not replaced by voluntary donors;

(L) An optometrist licensed under the provisions of chapter 18.53 RCW.

(20) "Member" means any firefighter, law enforcement officer, or other person as would apply under subsections (16) or (18) of this section whose membership is transferred to the Washington law enforcement officers' and firefighters' retirement system on or after March 1, 1970, and every law enforcement officer and firefighter who is employed in that capacity on or after such date.

(21) "Plan 1" means the law enforcement officers' and firefighters' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(22) "Plan 2" means the law enforcement officers' and firefighters' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977.

(23) "Position" means the employment held at any particular time, which may or may not be the same as civil service rank.

(24) "Regular interest" means such rate as the director may determine.

(25) "Retiree" for persons who establish membership in the retirement system on or after October 1, 1977, means any member in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by such member.

(26) "Retirement fund" means the "Washington law enforcement officers' and firefighters' retirement system fund" as provided for herein.

(27) "Retirement system" means the "Washington law enforcement officers' and firefighters' retirement system" provided herein.

(28)(a) "Service" for plan 1 members, means all periods of employment for an employer as a firefighter or law enforcement officer,

for which compensation is paid, together with periods of suspension not exceeding thirty days in duration. For the purposes of this chapter service shall also include service in the armed forces of the United States as provided in RCW 41.26.190. Credit shall be allowed for all service credit months of service rendered by a member from and after the member's initial commencement of employment as a firefighter or law enforcement officer, during which the member worked for seventy or more hours, or was on disability leave or disability retirement. Only service credit months of service shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter.

(i) For members retiring after May 21, 1971 who were employed under the coverage of a prior pension act before March 1, 1970, "service" shall also include (A) such military service not exceeding five years as was creditable to the member as of March 1, 1970, under the member's particular prior pension act, and (B) such other periods of service as were then creditable to a particular member under the provisions of RCW 41.18.165, 41.20.160, or 41.20.170. However, in no event shall credit be allowed for any service rendered prior to March 1, 1970, where the member at the time of rendition of such service was employed in a position covered by a prior pension act, unless such service, at the time credit is claimed therefor, is also creditable under the provisions of such prior act.

(ii) A member who is employed by two employers at the same time shall only be credited with service to one such employer for any month during which the member rendered such dual service.

(b) "Service" for plan 2 members, means periods of employment by a member for one or more employers for which basic salary is earned for ninety or more hours per calendar month which shall constitute a service credit month. Periods of employment by a member for one or more employers for which basic salary is earned for at least seventy hours but less than ninety hours per calendar month shall constitute one-half service credit month. Periods of employment by a member for one or more employers for which basic salary is earned for less than seventy hours shall constitute a one-quarter service credit month.

Members of the retirement system who are elected or appointed to a state elective position may elect to continue to be members of this retirement system.

Service credit years of service shall be determined by dividing the total number of service credit months of service by twelve. Any fraction of a service credit year of service as so determined shall be taken into account in the computation of such retirement allowance or benefits.

If a member receives basic salary from two or more employers during any calendar month, the individual shall receive one service credit month's service credit during any calendar month in which multiple service for ninety or more hours is rendered; or one-half service credit month's service credit during any calendar month in which multiple service for at least seventy hours but less than ninety hours is rendered; or one-quarter service credit month during any calendar month in which multiple service for less than seventy hours is rendered.

(29) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(30) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(31) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(32) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(33) "Surviving spouse" means the surviving widow or widower of a member. "Surviving spouse" shall not include the divorced spouse of a member except as provided in RCW 41.26.162.

Sec. 7. RCW 41.32.010 and 2008 c 204 s 1 and 2008 c 175 s 1 are each reenacted and amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1)(a) "Accumulated contributions" for plan 1 members, means the sum of all regular annuity contributions and, except for the purpose of withdrawal at the time of retirement, any amount paid under RCW 41.50.165(2) with regular interest thereon.

(b) "Accumulated contributions" for plan 2 members, means the sum of all contributions standing to the credit of a member in the member's

individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(2) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) "Annuity" means the moneys payable per year during life by reason of accumulated contributions of a member.

(4) "Member reserve" means the fund in which all of the accumulated contributions of members are held.

(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6) "Contract" means any agreement for service and compensation between a member and an employer.

(7) "Creditable service" means membership service plus prior service for which credit is allowable. This subsection shall apply only to plan 1 members.

(8) "Dependent" means receiving one-half or more of support from a member.

(9) "Disability allowance" means monthly payments during disability. This subsection shall apply only to plan 1 members.

(10)(a) "Earnable compensation" for plan 1 members, means:

(i) All salaries and wages paid by an employer to an employee member of the retirement system for personal services rendered during a fiscal year. In all cases where compensation includes maintenance the employer shall fix the value of that part of the compensation not paid in money.

(ii) For an employee member of the retirement system teaching in an extended school year program, two consecutive extended school years, as defined by the employer school district, may be used as the annual period for determining earnable compensation in lieu of the two fiscal years.

(iii) "Earnable compensation" for plan 1 members also includes the

following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

(B) If a leave of absence, without pay, is taken by a member for the purpose of serving as a member of the state legislature, and such member has served in the legislature five or more years, the salary which would have been received for the position from which the leave of absence was taken shall be considered as compensation earnable if the employee's contribution thereon is paid by the employee. In addition, where a member has been a member of the state legislature for five or more years, earnable compensation for the member's two highest compensated consecutive years of service shall include a sum not to exceed thirty-six hundred dollars for each of such two consecutive years, regardless of whether or not legislative service was rendered during those two years.

(iv) For members employed less than full time under written contract with a school district, or community college district, in an instructional position, for which the member receives service credit of less than one year in all of the years used to determine the earnable compensation used for computing benefits due under RCW 41.32.497, 41.32.498, and 41.32.520, the member may elect to have earnable compensation defined as provided in RCW 41.32.345. For the purposes of this subsection, the term "instructional position" means a position in which more than seventy-five percent of the member's time is spent as a classroom instructor (including office hours), a librarian, a psychologist, a social worker, a nurse, a physical therapist, an occupational therapist, a speech language pathologist or audiologist, or a counselor. Earnable compensation shall be so defined only for the purpose of the calculation of retirement benefits and only as necessary to insure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

(v) "Earnable compensation" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Earnable compensation" for plan 2 and plan 3 members also includes the following actual or imputed payments which, except in the case of (b)(ii)(B) of this subsection, are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation, to the extent provided above, and the individual shall receive the equivalent service credit.

(ii) In any year in which a member serves in the legislature the member shall have the option of having such member's earnable compensation be the greater of:

(A) The earnable compensation the member would have received had such member not served in the legislature; or

(B) Such member's actual earnable compensation received for teaching and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions.

<u>(c) In calculating earnable compensation under (a) or (b) of this subsection, the department of retirement systems shall include any compensation forgone by a member employed by a state agency or institution during the 2009-2011 fiscal biennium as a result of reduced</u>

work hours, mandatory or voluntary leave without pay, or temporary layoffs if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer.

(11) "Employer" means the state of Washington, the school district, or any agency of the state of Washington by which the member is paid.

(12) "Fiscal year" means a year which begins July 1st and ends June 30th of the following year.

(13) "Former state fund" means the state retirement fund in operation for teachers under chapter 187, Laws of 1923, as amended.

(14) "Local fund" means any of the local retirement funds for teachers operated in any school district in accordance with the provisions of chapter 163, Laws of 1917 as amended.

(15) "Member" means any teacher included in the membership of the retirement system who has not been removed from membership under RCW 41.32.878 or 41.32.768. Also, any other employee of the public schools who, on July 1, 1947, had not elected to be exempt from membership and who, prior to that date, had by an authorized payroll deduction, contributed to the member reserve.

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered. The provisions of this subsection shall apply only to plan 1 members.

(17) "Pension" means the moneys payable per year during life from the pension reserve.

(18) "Pension reserve" is a fund in which shall be accumulated an actuarial reserve adequate to meet present and future pension liabilities of the system and from which all pension obligations are to be paid.

(19) "Prior service" means service rendered prior to the first date of eligibility to membership in the retirement system for which credit is allowable. The provisions of this subsection shall apply only to plan 1 members.

(20) "Prior service contributions" means contributions made by a member to secure credit for prior service. The provisions of this subsection shall apply only to plan 1 members.

(21) "Public school" means any institution or activity operated by the state of Washington or any instrumentality or political subdivision thereof employing teachers, except the University of Washington and Washington State University.

(22) "Regular contributions" means the amounts required to be deducted from the compensation of a member and credited to the member's individual account in the member reserve. This subsection shall apply only to plan 1 members.

(23) "Regular interest" means such rate as the director may determine.

(24)(a) "Retirement allowance" for plan 1 members, means monthly payments based on the sum of annuity and pension, or any optional benefits payable in lieu thereof.

(b) "Retirement allowance" for plan 2 and plan 3 members, means monthly payments to a retiree or beneficiary as provided in this chapter.

(25) "Retirement system" means the Washington state teachers' retirement system.

(26)(a) "Service" for plan 1 members means the time during which a member has been employed by an employer for compensation.

(i) If a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered.

(ii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(iii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member for one or more employers for which earnable compensation is earned subject to the following conditions:

(i) A member employed in an eligible position or as a substitute shall receive one service credit month for each month of September through August of the following year if he or she earns earnable compensation for eight hundred ten or more hours during that period and is employed during nine of those months, except that a member may not

receive credit for any period prior to the member's employment in an eligible position except as provided in RCW 41.32.812 and 41.50.132((;)).

(ii) Any other member employed in an eligible position or as a substitute who earns earnable compensation during the period from September through August shall receive service credit according to one of the following methods, whichever provides the most service credit to the member:

(A) If a member is employed either in an eligible position or as a substitute teacher for nine months of the twelve month period between September through August of the following year but earns earnable compensation for less than eight hundred ten hours but for at least six hundred thirty hours, he or she will receive one-half of a service credit month for each month of the twelve month period;

(B) If a member is employed in an eligible position or as a substitute teacher for at least five months of a six-month period between September through August of the following year and earns earnable compensation for six hundred thirty or more hours within the six-month period, he or she will receive a maximum of six service credit months for the school year, which shall be recorded as one service credit month for each month of the six-month period;

(C) All other members employed in an eligible position or as a substitute teacher shall receive service credit as follows:

(I) A service credit month is earned in those calendar months where earnable compensation is earned for ninety or more hours;

(II) A half-service credit month is earned in those calendar months where earnable compensation is earned for at least seventy hours but less than ninety hours; and

(III) A quarter-service credit month is earned in those calendar months where earnable compensation is earned for less than seventy hours.

(iii) Any person who is a member of the teachers' retirement system and who is elected or appointed to a state elective position may continue to be a member of the retirement system and continue to receive a service credit month for each of the months in a state elective position by making the required member contributions.

(iv) When an individual is employed by two or more employers the

individual shall only receive one month's service credit during any calendar month in which multiple service for ninety or more hours is rendered.

(v) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

(vi) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(vii) The department shall adopt rules implementing this subsection.

(27) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's

retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

(31) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(32) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(33) "Director" means the director of the department.

(34) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(35) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

(37)(a) "Eligible position" for plan 2 members from June 7, 1990, through September 1, 1991, means a position which normally requires two or more uninterrupted months of creditable service during September through August of the following year.

(b) "Eligible position" for plan 2 and plan 3 on and after September 1, 1991, means a position that, as defined by the employer, normally requires five or more months of at least seventy hours of earnable compensation during September through August of the following year.

(c) For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position.

(d) The elected position of the superintendent of public instruction is an eligible position.

(38) "Plan 1" means the teachers' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(39) "Plan 2" means the teachers' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and prior to July 1, 1996.

(40) "Plan 3" means the teachers' retirement system, plan 3 providing the benefits and funding provisions covering persons who first become members of the system on and after July 1, 1996, or who transfer under RCW 41.32.817.

(41) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items compiled by the bureau of labor statistics, United States department of labor.

(42) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(43) "Index B" means the index for the year prior to index A.

(44) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(45) "Adjustment ratio" means the value of index A divided by index B.

(46) "Annual increase" means, initially, fifty-nine cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.32.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination. Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this section.

(49) "Employed" or "employee" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work.

The department shall adopt rules and interpret this subsection consistent with common law.

Sec. 8. RCW 41.37.010 and 2007 c 492 s 11 and 2007 c 294 s 1 are each reenacted and amended to read as follows:

The definitions in this section apply throughout this chapter, unless the context clearly requires otherwise.

(1) "Retirement system" means the Washington public safety employees' retirement system provided for in this chapter.

(2) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(3) "State treasurer" means the treasurer of the state of Washington.

(4) "Employer" means the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, the Washington state department of natural resources, and the Washington state liquor control board; any county corrections department; or any city corrections department not covered under chapter 41.28 RCW.

(5) "Member" means any employee employed by an employer on a full-time basis:

(a) Who is in a position that requires completion of a certified criminal justice training course and is authorized by their employer to arrest, conduct criminal investigations, enforce the criminal laws of the state of Washington, and carry a firearm as part of the job;

(b) Whose primary responsibility is to ensure the custody and security of incarcerated or probationary individuals as a corrections officer, probation officer, or jailer;

(c) Who is a limited authority Washington peace officer, as defined in RCW 10.93.020, for an employer; or

(d) Whose primary responsibility is to supervise members eligible under this subsection.

(6)(a) "Compensation earnable" for members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall

exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

(b) "Compensation earnable" for members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement, which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided in this subsection, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature; or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.37.060;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(7) "Service" means periods of employment by a member on or after July 1, 2006, for one or more employers for which compensation earnable

is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(a) Service in any state elective position shall be deemed to be full-time service.

(b) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

(8) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(9) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(10) "Membership service" means all service rendered as a member.

(11) "Beneficiary" means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(12) "Regular interest" means such rate as the director may determine.

(13) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(14)(a) "Average final compensation" means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.37.290.

(b) In calculating average final compensation under (a) of this subsection, the department of retirement systems shall include any compensation forgone by a member employed by a state agency or institution during the 2009-2011 fiscal biennium as a result of reduced work hours, mandatory or voluntary leave without pay, or temporary layoffs if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer.

(15) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(16) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(17) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(18) "Retirement allowance" means monthly payments to a retiree or beneficiary as provided in this chapter.

(19) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(20) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(21) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(22) "Eligible position" means any permanent, full-time position included in subsection (5) of this section.

(23) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (22) of this section.

(24) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

(25) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(26) "Director" means the director of the department.

(27) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(28) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(29) "Plan" means the Washington public safety employees' retirement system plan 2.

(30) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(31) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(32) "Index B" means the index for the year prior to index A.

(33) "Adjustment ratio" means the value of index A divided by index B.

(34) "Separation from service" occurs when a person has terminated all employment with an employer.

Sec. 9. RCW 43.43.120 and 2009 c 549 s 5124 and 2009 c 522 s 1 are each reenacted and amended to read as follows:

As used in ((~~RCW 43.43.120~~)) this section and RCW 43.43.130 through 43.43.320, unless a different meaning is plainly required by the context:

(1) "Actuarial equivalent" shall mean a benefit of equal value when computed upon the basis of such mortality table as may be adopted and such interest rate as may be determined by the director.

(2) "Annual increase" means as of July 1, 1999, seventy-seven cents per month per year of service which amount shall be increased each subsequent July 1st by three percent, rounded to the nearest cent.

(3)(a) "Average final salary," for members commissioned prior to January 1, 2003, shall mean the average monthly salary received by a member during the member's last two years of service or any consecutive two-year period of service, whichever is the greater, as an employee of the Washington state patrol; or if the member has less than two years of service, then the average monthly salary received by the member during the member's total years of service.

(b) "Average final salary," for members commissioned on or after January 1, 2003, shall mean the average monthly salary received by a member for the highest consecutive sixty service credit months; or if the member has less than sixty months of service, then the average monthly salary received by the member during the member's total months of service.

(c) In calculating average final salary under (a) or (b) of this subsection, the department of retirement systems shall include any compensation forgone by the member during the 2009-2011 fiscal biennium as a result of reduced work hours, mandatory or voluntary leave without pay, or temporary layoffs if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the chief.

(4) "Beneficiary" means any person in receipt of retirement allowance or any other benefit allowed by this chapter.

(5)(a) "Cadet," for a person who became a member of the retirement system after June 12, 1980, is a person who has passed the Washington state patrol's entry-level oral, written, physical performance, and background examinations and is, thereby, appointed by the chief as a candidate to be a commissioned officer of the Washington state patrol.

(b) "Cadet," for a person who became a member of the retirement system before June 12, 1980, is a trooper cadet, patrol cadet, or employee of like classification, employed for the express purpose of receiving the on-the-job training required for attendance at the state patrol academy and for becoming a commissioned trooper. "Like classification" includes: Radio operators or dispatchers; persons providing security for the governor or legislature; patrol officers; drivers' license examiners; weighmasters; vehicle safety inspectors; central wireless operators; and warehouse workers.

(6) "Contributions" means the deduction from the compensation of each member in accordance with the contribution rates established under chapter 41.45 RCW.

(7) "Current service" shall mean all service as a member rendered on or after August 1, 1947.

(8) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(9) "Director" means the director of the department of retirement systems.

(10) "Domestic partners" means two adults who have registered as domestic partners under RCW ((~~26.60.020~~)) 26.60.040.

(11) "Employee" means any commissioned employee of the Washington state patrol.

(12) "Insurance commissioner" means the insurance commissioner of the state of Washington.

(13) "Lieutenant governor" means the lieutenant governor of the state of Washington.

(14) "Member" means any person included in the membership of the retirement fund.

(15) "Plan 2" means the Washington state patrol retirement system plan 2, providing the benefits and funding provisions covering commissioned employees who first become members of the system on or after January 1, 2003.

(16) "Prior service" shall mean all services rendered by a member to the state of Washington, or any of its political subdivisions prior to August 1, 1947, unless such service has been credited in another public retirement or pension system operating in the state of Washington.

(17) "Regular interest" means interest compounded annually at such rates as may be determined by the director.

(18) "Retirement board" means the board provided for in this chapter.

(19) "Retirement fund" means the Washington state patrol retirement fund.

(20) "Retirement system" means the Washington state patrol retirement system.

(21)(a) "Salary," for members commissioned prior to July 1, 2001, shall exclude any overtime earnings related to RCW 47.46.040, or any voluntary overtime, earned on or after July 1, 2001.

(b) "Salary," for members commissioned on or after July 1, 2001, shall exclude any overtime earnings related to RCW 47.46.040 or any voluntary overtime, lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, holiday pay, or any form of severance pay.

(22) "Service" shall mean services rendered to the state of Washington or any political subdivisions thereof for which compensation has been paid. Full time employment for seventy or more hours in any

given calendar month shall constitute one month of service. An employee who is reinstated in accordance with RCW 43.43.110 shall suffer no loss of service for the period reinstated subject to the contribution requirements of this chapter. Only months of service shall be counted in the computation of any retirement allowance or other benefit provided for herein. Years of service shall be determined by dividing the total number of months of service by twelve. Any fraction of a year of service as so determined shall be taken into account in the computation of such retirement allowance or benefit.

(23) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(24) "State treasurer" means the treasurer of the state of Washington.

((~~(25)~~)) Unless the context expressly indicates otherwise, words importing the masculine gender shall be extended to include the feminine gender and words importing the feminine gender shall be extended to include the masculine gender.

Sec. 10. RCW 41.04.665 and 2008 c 36 s 3 are each amended to read as follows:

(1) An agency head may permit an employee to receive leave under this section if:

(a)(i) The employee suffers from, or has a relative or household member suffering from, an illness, injury, impairment, or physical or mental condition which is of an extraordinary or severe nature;

(ii) The employee has been called to service in the uniformed services;

(iii) A state of emergency has been declared anywhere within the United States by the federal or any state government and the employee has needed skills to assist in responding to the emergency or its aftermath and volunteers his or her services to either a governmental agency or to a nonprofit organization engaged in humanitarian relief in the devastated area, and the governmental agency or nonprofit organization accepts the employee's offer of volunteer services; ((~~or~~))

(iv) The employee is a victim of domestic violence, sexual assault, or stalking; or

(v) During the 2009-2011 fiscal biennium only, the employee is

eligible to use leave in lieu of temporary layoff under section 3(5) of this act;

(b) The illness, injury, impairment, condition, call to service, emergency volunteer service, or consequence of domestic violence, sexual assault, temporary layoff under section 3(5) of this act, or stalking has caused, or is likely to cause, the employee to:

(i) Go on leave without pay status; or

(ii) Terminate state employment;

(c) The employee's absence and the use of shared leave are justified;

(d) The employee has depleted or will shortly deplete his or her:

(i) Annual leave and sick leave reserves if he or she qualifies under (a)(i) of this subsection;

(ii) Annual leave and paid military leave allowed under RCW 38.40.060 if he or she qualifies under (a)(ii) of this subsection; or

(iii) Annual leave if he or she qualifies under (a)(iii) ((~~or~~)), (iv), or (v) of this subsection;

(e) The employee has abided by agency rules regarding:

(i) Sick leave use if he or she qualifies under (a)(i) or (iv) of this subsection; or

(ii) Military leave if he or she qualifies under (a)(ii) of this subsection; and

(f) The employee has diligently pursued and been found to be ineligible for benefits under chapter 51.32 RCW if he or she qualifies under (a)(i) of this subsection.

(2) The agency head shall determine the amount of leave, if any, which an employee may receive under this section. However, an employee shall not receive a total of more than two hundred sixty-one days of leave, except that shared leave received under the uniformed service shared leave pool in RCW 41.04.685 is not included in this total.

(3) An employee may transfer annual leave, sick leave, and his or her personal holiday, as follows:

(a) An employee who has an accrued annual leave balance of more than ten days may request that the head of the agency for which the employee works transfer a specified amount of annual leave to another employee authorized to receive leave under subsection (1) of this section. In no event may the employee request a transfer of an amount of leave that would result in his or her annual leave account going

below ten days. For purposes of this subsection (3)(a), annual leave does not accrue if the employee receives compensation in lieu of accumulating a balance of annual leave.

(b) An employee may transfer a specified amount of sick leave to an employee requesting shared leave only when the donating employee retains a minimum of one hundred seventy-six hours of sick leave after the transfer.

(c) An employee may transfer, under the provisions of this section relating to the transfer of leave, all or part of his or her personal holiday, as that term is defined under RCW 1.16.050, or as such holidays are provided to employees by agreement with a school district's board of directors if the leave transferred under this subsection does not exceed the amount of time provided for personal holidays under RCW 1.16.050.

(4) An employee of an institution of higher education under RCW 28B.10.016, school district, or educational service district who does not accrue annual leave but does accrue sick leave and who has an accrued sick leave balance of more than twenty-two days may request that the head of the agency for which the employee works transfer a specified amount of sick leave to another employee authorized to receive leave under subsection (1) of this section. In no event may such an employee request a transfer that would result in his or her sick leave account going below twenty-two days. Transfers of sick leave under this subsection are limited to transfers from employees who do not accrue annual leave. Under this subsection, "sick leave" also includes leave accrued pursuant to RCW 28A.400.300(2) or 28A.310.240(1) with compensation for illness, injury, and emergencies.

(5) Transfers of leave made by an agency head under subsections (3) and (4) of this section shall not exceed the requested amount.

(6) Leave transferred under this section may be transferred from employees of one agency to an employee of the same agency or, with the approval of the heads of both agencies, to an employee of another state agency. However, leave transferred to or from employees of school districts or educational service districts is limited to transfers to or from employees within the same employing district.

(7) While an employee is on leave transferred under this section, he or she shall continue to be classified as a state employee and shall

receive the same treatment in respect to salary, wages, and employee benefits as the employee would normally receive if using accrued annual leave or sick leave.

(a) All salary and wage payments made to employees while on leave transferred under this section shall be made by the agency employing the person receiving the leave. The value of leave transferred shall be based upon the leave value of the person receiving the leave.

(b) In the case of leave transferred by an employee of one agency to an employee of another agency, the agencies involved shall arrange for the transfer of funds and credit for the appropriate value of leave.

(i) Pursuant to rules adopted by the office of financial management, funds shall not be transferred under this section if the transfer would violate any constitutional or statutory restrictions on the funds being transferred.

(ii) The office of financial management may adjust the appropriation authority of an agency receiving funds under this section only if and to the extent that the agency's existing appropriation authority would prevent it from expending the funds received.

(iii) Where any questions arise in the transfer of funds or the adjustment of appropriation authority, the director of financial management shall determine the appropriate transfer or adjustment.

(8) Leave transferred under this section shall not be used in any calculation to determine an agency's allocation of full time equivalent staff positions.

(9) The value of any leave transferred under this section which remains unused shall be returned at its original value to the employee or employees who transferred the leave when the agency head finds that the leave is no longer needed or will not be needed at a future time in connection with the illness or injury for which the leave was transferred or for any other qualifying condition. Before the agency head makes a determination to return unused leave in connection with an illness or injury, or any other qualifying condition, he or she must receive from the affected employee a statement from the employee's doctor verifying that the illness or injury is resolved. To the extent administratively feasible, the value of unused leave which was transferred by more than one employee shall be returned on a pro rata basis.

(10) An employee who uses leave that is transferred to him or her under this section may not be required to repay the value of the leave that he or she used.

NEW SECTION. **Sec. 11.** If any part of this act is found to be in conflict with federal requirements that are a prescribed condition to the allocation of federal funds to the state, the conflicting part of this act is inoperative solely to the extent of the conflict and with respect to the agencies directly affected, and this finding does not affect the operation of the remainder of this act in its application to the agencies concerned. Rules adopted under this act must meet federal requirements that are a necessary condition to the receipt of federal funds by the state.

NEW SECTION. **Sec. 12.** If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. **Sec. 13.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

Passed by the Senate April 10, 2010.
Passed by the House April 2, 2010.
Approved by the Governor April 27, 2010, with the exception of certain items that were vetoed.
Filed in Office of Secretary of State April 28, 2010.

Note: Governor's explanation of partial veto is as follows:

"I am returning herewith, without my approval as to Section 2, Engrossed Substitute Senate Bill 6503 entitled:

"AN ACT Relating to the operations of state agencies."

This bill directs state agencies to achieve reductions in employee compensation costs. Section 2 of this bill would require additional compensation reductions of $10 million General Fund State from Washington Management Service and exempt managers, who comprise less than five percent of state employees. A cut of this size, over such a small base, is too large to be practical. For example, it would take nearly two weeks of temporary layoff – over and above the ten days of layoff due to agency closures included in this bill – to reach this level of compensation reduction.

Managers will be subject to the temporary layoffs in proportion to all staff. Imposing this added reduction would interfere with recruiting and retaining qualified and experienced workers. It would likely

cause salary inversion, making it particularly hard to promote senior state employees with technical skills into management jobs.

For these reasons I have vetoed Section 2 of Engrossed Substitute Senate Bill 6503.

With the exception of Section 2 of Engrossed Substitute Senate Bill 6503 is approved."

Multiple Agency Fiscal Note Summary

Bill Number: 6503 S SB AMH WAYS PRIN 211	**Title:** Closing state agencies

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Office of Financial Management	Non-zero but indeterminate cost. Please see discussion."					
Department of Personnel	0	12,480	0	0	0	0
Total $	**0**	**12,480**	**0**	**0**	**0**	**0**
Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	0	0	.0	0	0	.0	0	0
Office of Financial Management	.0	(50,127,000)	(86,129,000)	.0	0	0	.0	0	0
Office of Financial Management	.4	101,753	101,753	.0	0	0	.0	0	0
Department of Personnel	.0	0	12,480	.0	0	0	.0	0	0
Department of Retirement Systems	Non-zero but indeterminate cost and/or savings. Please see discussion.								
University of Washington	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Washington State University	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Central Washington University	.0	0	0	.0	0	0	.0	0	0
Total	**0.4**	**$(50,025,247)**	**$(86,014,767)**	**0.0**	**$0**	**$0**	**0.0**	**$0**	**$0**
Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 26215

Estimated Capital Budget Impact

Agency Name	2009-11		2011-13		2013-15	
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Department of Retirement Systems						
Acquisition	0	0	0	0	0	0
Construction	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total $	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Prepared by: Pam Davidson, OFM	**Phone:** 360-902-0550	**Date Published:** Final

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 26215

Individual State Agency Fiscal Note

Bill Number:	6503 S SB AMH WAYS PRIN 211	Title:	Closing state agencies	Agency:	035-Office of State Actuary

Part I: Estimates

[X] **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2010
Agency Preparation:	Aaron Gutierrez	Phone: 3607866152	Date: 02/10/2010
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 02/10/2010
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/10/2010

Request # -1

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part IV: Capital Budget Impact

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**2/10/10**	**6503 SSB AMH WAYS PRIN 211**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2010 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This bill requires reductions in employee compensation costs for all state agencies (establishes a statewide "furlough policy") and grants new retirement benefits for members of the Teachers' Retirement System (TRS), Public Safety Employees' Retirement System (PSERS), Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), and Washington State Patrol Retirement System (WSPRS) who may be impacted by furloughs.

The new retirement benefits do not have a material cost to the affected retirement systems. The statewide furlough policy may change furlough experience in the Public Employees' Retirement System (PERS) from what we assumed under current law. However, we do not expect this experience change to produce a cost to PERS beyond what we already assume for current law. Please see the body of this fiscal note for more details.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This bill impacts the following systems:

- PERS.
- TRS.
- PSERS.
- LEOFF.
- WSPRS.

This bill requires all state legislative, executive, and judicial agencies, as well as institutions of higher education to reduce employee compensation costs by their proportionate share of $50 million by the end of state Fiscal Year 2011. Each agency's proportionate share will be adjusted to reflect furloughs implemented between July 1, 2009, and January 1, 2010. No adjustments will be made for reductions adopted as a result of the 2009 operating budget (ESHB 1244 and Chapter 564, Laws 2009).

The Office of Financial Management must work with agencies to proportionately reduce compensation for Washington Management Services and Exempt Management Services employees by $750,000 in Fiscal Year 2010, and $9.25 million in Fiscal Year 2011.

By May 15, 2010, each agency and institution may submit a cost reduction plan that may include, for example, temporary layoffs and reductions in workforce. Agencies that do not file a plan will be required to close the agency and temporarily lay off the workers on eleven business days: one per month, from June 2010 until the end of the current biennium. Employees who are not scheduled to work on one of these days must receive a temporary layoff on an alternative date.

Numerous exemptions are established, for example where necessary to maintain public health and safety.

When calculating average salary, the Department of Retirement Systems must include any compensation forgone during the 2009-11 Biennium due to reduced work hours, voluntary leave without pay, or temporary furloughs. In lay terms, this means the member's salary average will reflect what the member would have earned had it not been for the furlough. Members of PERS received protection from this reduction under previous legislation (SB 6157, and Chapter 430, Laws of 2009). This bill also extends the protection to employees of state agencies or institutions who are members of TRS, PSERS, LEOFF, and WSPRS.

The protection for salary average only applies to reduced work hours, voluntary leave without pay, or temporary furloughs taken during the 2009-11 Biennium that are declared by the employer to be an integral part of an employer's expenditure reduction efforts. This bill makes that declaration.

Further changes to this amendment (as reflected in SSB 6503 AMH Ways H4985.1) are technical corrections that do not impact the pension systems or the results of this fiscal note.

Effective Date: Immediately upon passage.

What Is The Current Situation?

Due to budget concerns, some agencies have implemented cost reduction measures including furloughs. In 2009 the Legislature passed SB 6157 (explained above) to mitigate the impact of furloughs on retirement benefits for members of PERS.

Members of the other state retirement systems do not have provisions to mitigate the impact of furloughs on their retirement benefits.

Who Is Impacted And How?

We estimate this bill could affect any of the active members in TRS, PSERS, LEOFF, and WSPRS employed in state agencies through improved benefits. The table below shows the total count of active state-employed members by system and plan.

System	Plan 1	Plan 2/3	Total
PERS	5,778	82,211	87,989
TRS	236	175	411
PSERS	N/A	2,249	2,249
LEOFF	0	223	223
WSPRS	851	234	1,085

As an example, this bill could increase the benefits for a member of TRS affected by state furloughs through an increase in the Average Final Compensation (AFC) that would have been forgone under current law.

The bill also establishes a statewide furlough policy which may produce furlough experience in PERS that differs from our current assumption. Any material difference would likely emerge as an experience gain/loss and impact PERS 2 member rates and PERS employers rates beyond the current biennium.

WHY THIS BILL DOES NOT HAVE AN ADDITIONAL COST AND WHO PAYS FOR IT

Why This Bill Does Not Have An Additional Cost

The statewide furlough policy may change furlough experience in PERS from what we assumed under current law. However, we do not expect this experience change to produce a cost to PERS beyond what we already assume for current law. For last year's legislation, SB 6157, we determined a supplemental contribution rate increase of 0.01 percent each for the PERS 1 Unfunded Actuarial Accrued Liability (UAAL) contribution rate and the PERS 2/3 Normal Cost (NC) rate. These supplemental rate

increases correspond to approximately 12 percent of all PERS members taking ten furlough days per year in the 2009-11 Biennium. We assume these supplemental contributions will cover any additional costs from this bill.

We further expect that the benefit improvements for affected members in TRS, PSERS, LEOFF, and WSPRS, systems not covered under current law, will not have a material impact on the costs of those systems due to the limited number of eligible and non-exempt members in those systems.

Please see Appendix A for more details.

Who Will Pay For These Costs?

A cost could arise from this bill if the actual number of state furlough days exceeds the number we assumed. Should this occur, the cost would emerge over time as an experience loss and would be divided between members, local employers, and the state according to the standard funding methods:

- Plan 1 and Plan 3: 100 percent employer.
- Plan 2, WSPRS: 50 percent member and 50 percent employer.
- LEOFF 2: 50 percent member, 30 percent employer, and 20 percent State.

The analysis of this bill does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the systems will vary from those presented in the June 30, 2008, Actuarial Valuation Report (AVR) or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions selected for this pricing we varied the following assumption:

- The percentage of PERS members taking ten furlough days per year during the current biennium. (The assumption for pricing SB 6157 from last year – now current law.)

For purposes of this sensitivity analysis only, we increased our current assumption of 12 percent in PERS to 36 percent in PERS 1 and 22.5 percent in PERS 2/3. Under these assumptions, we would expect an additional 0.01 percent UAAL and NC contribution rate beginning in the 2011-13 Biennium. We estimate a 2011-13 budget impact from this bill of $0.9 million from the General Fund and $4.2 million from all employers. Over 25

years, we estimate a budget impact from this bill of $6.2 million from the General Fund and $27.6 million from all employers.

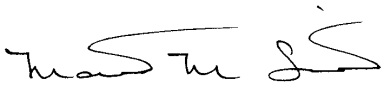
Otherwise, we developed the estimated costs for this sensitivity analysis using the same data, assumptions, and methods as disclosed in the AVR.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods and assumptions may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2010 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page one of this fiscal note.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Matthew M. Smith, FCA, EA, MAAA
State Actuary

APPENDIX A – PRICING DETAILS

Assumptions We Made

We assumed at least $20 million of the $60 million compensation savings required under this bill come from sources other than furloughs (or about 33 percent).

Why There Is No Additional Cost to PERS

In our pricing for SB 6157 during the 2009 Session, we determined a supplemental contribution rate increase of 0.01 percent each for the PERS 1 UAAL contribution rate and the PERS 2/3 NC rate. These supplemental rate increases correspond to approximately 12 percent of all PERS members taking ten furlough days per year in the 2009-11 Biennium. We found that this was equivalent to a $99 million salary savings over all of PERS.

For PERS, this bill impacts state-employed members only – about 55 percent of PERS. So, we must reduce the salary savings to $54 million (= $99 million x 55 percent).

Therefore, if at least $6 million (= $60 million minus $54 million) of the compensation savings required under this bill come from sources other than furloughs (or about 10 percent), then we will not see costs beyond what we already assume under current law.

Why The Cost To Other Systems Is Immaterial

This bill also extends protection against reductions in members' AFC to state-employed members of systems other than PERS. We do not believe additional costs that result from that protection would be material for those systems because they have relatively few state employees who would be impacted by these furloughs.

The bill contains many exemptions for, among others, law enforcement and corrections officials, firefighters, and some higher education employees. The next table shows each of these systems' total count of active members, count of those actives who are state employees, and the number of state employees we believe would be eligible (non-exempt) for furlough reductions.

System	All Actives	State Actives	Non-Exempt
TRS	66,524	411	411*
PSERS	3,981	2,249	0
LEOFF	17,047	223	0
WSPRS	1,085	1,085	0

**About 70% of these members work for higher education employers and could be exempt.*

Otherwise, we developed these costs using the same data, assumptions, and methods as disclosed in the AVR.

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Individual State Agency Fiscal Note

Bill Number:	6503 S SB AMH WAYS PRIN 211	Title:	Closing state agencies	Agency:	105-Office of Financial Management

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
Account					
All Other Funds-State 000-1	(1,630,000)	(16,606,000)	(18,236,000)	0	0
All Other Funds-Federal 000-2	(53,000)	(544,000)	(597,000)	0	0
All Other Funds-Non-Appropriated 000-6	(879,000)	(9,499,000)	(10,378,000)	0	0
All Other Funds-Private/Local 000-7	(6,000)	(57,000)	(63,000)	0	0
General Fund-State 001-1	(4,473,000)	(45,654,000)	(50,127,000)	0	0
General Fund-Federal 001-2	(530,000)	(5,317,000)	(5,847,000)	0	0
General Fund-Private/Local 001-7	(80,000)	(801,000)	(881,000)	0	0
Total $	(7,651,000)	(78,478,000)	(86,129,000)	0	0

Estimated Capital Budget Impact:

Total $						

Request # 056-1

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[X] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2010
Agency Preparation:	Jane Sakson	Phone: 360-902-0549	Date: 02/04/2010
Agency Approval:	Pam Davidson	Phone: 360-902-0550	Date: 02/04/2010
OFM Review:	Cheri Keller	Phone: 360-902-0563	Date: 02/04/2010

Request # 056-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 1 of the striking amendment directs agencies to achieve a reduction in government operating expenses approximately equal to $50 million from General Fund - State and Education Legacy Trust Account expenditures, and additional proportional amounts from other funds and accounts during the 2009-11 Biennium, through the methods described in the amendment.

Executive branch agencies (other than higher education institutions) may submit to the Office of Financial Management a compensation reduction plan to achieve the cost savings that would result from 11 days of temporary layoff. Higher education institutions may submit similar compensation reduction plans, but the state board of technical and community colleges shall submit a single plan for all community and technical colleges. If agencies do not supply an approved plan, the agencies would be closed on one day in Fiscal Year 2010 and on ten specified days in Fiscal Year 2011. The closures are to result in the temporary layoff of employees, and employee compensation is to be reduced proportionately. The layoffs are not to affect vacation leave accrual, seniority, health insurance, or sick leave credits. The compensation reduction is deemed to be an integral part of "expediture reduction efforts" under chapter 430, Laws of 2009, which means that the calculation of pension benefits is held harmless, in spite of an employee's reduced work hours. Certain activities are exempted from the closures. The provisions would take effect immediately, with the first closure occuring on Monday, June 14, 2010. This fiscal note estimates the impact of these closures and of the expenditure reductions included in Section 9. Based on the assumptions contained in the attachment, 11 days of closure would save $39.97 million General Fund-State, and $28.85 million in Other Funds.

Section 9 directs a reduction of compensation expenditures for Washington Management Service (WMS) and exempt management services. The reduction would be $750,000 in Fy 2010 and $9.4 million in FY 2011, from the General Fund-State. Proportional reductions would be taken in other funds.

Thes estimates are based on the most recently enacted budget. Additional reductions that have been proposed in the Governor's 2010 Supplemental Budget, or that may be enacted by the Legislature, would affect the savings that could be achieved by closing state agencies. If significant budget reductions are made in the 2010 Supplemental Budget, the cost savings from temporary layoffs would be less than estimated in this fiscal note.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

This striking amendment exempts the major state revenue-collection functions at Department of Revenue, Liquor Control Board, State Lottery, and Child Support collections at the Department of Social and Health Services from closure. However, there are many other revenue collection functions at various agencies that could be affected by the closure, but the estimated revenue loss cannot be calculated.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Please see attachment for expenditure assumptions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years					
A-Salaries and Wages	(6,661,000)	(68,323,000)	(74,984,000)		
B-Employee Benefits	(990,000)	(10,155,000)	(11,145,000)		
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$(7,651,000)	$(78,478,000)	$(86,129,000)	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

ATTACHMENT—Expenditure Detail

Description of Estimate

These estimates are based on the following assumptions:

1. In Section 2 (2) of the bill, we have interpreted "compensation" to mean salary and wages, along with related employer pension and social security and Medicare contributions, assuming no effect on insurance or other benefits not specified in this sub-section;
2. The estimate assumes that the temporary layoffs are possible under collective bargaining agreements;
3. The estimate does not include any administrative or other implementation costs;
4. Any potential revenue lost is indeterminate at this time;
5. It is assumed that no employees would be eligible for unemployment benefits as a result of the layoffs;
6. We have also made a number of assumptions and interpretations about the definitions of activities that are exempted from closure, which are noted in the details below.

Exemptions

The exemptions specified in Section 2 (4) of the bill were estimated as follows:

Sec.2(4)	Exemption	Notes
a	Direct custody, supervision and patient care in:	
a(i)	corrections;	Prisons and Community Corrections exempted.
a(ii)	juvenile rehabilitation;	DSHS Juvenile Rehabilitation program exempted.
a(iii)	institutional care of veterans, or individuals with mental illness, and individuals with developmental disabilities;	Institutional program of Veterans Affairs, DSHS Mental Health program and DSHS Developmental Disabilities program exempted.
a(iv)	state hospitals, the university of Washington medical center and harborview medical center;	DSHS Mental Health program and UW funds exempted.
a(v)	the special commitment center, and	DSHS Special Commitment Center program exempted.
a(vi)	the school for the blind;	This agency exempted.
a(vii)	the state center for childhood deafness and hearing loss; and	This agency exempted.
a(viii)	the Washington youth academy.	Military Department exempted.
b	Direct protective services to children and other vulnerable populations [in DSHS];	DSHS Children and Family Services program and DSHS Long Term Care program exempted.
b	Child support enforcement [in DSHS] ;	Based on information from DSHS.
b	Disability determination services [in DSHS];	Based on information from DSHS.
c	WSP, except for management and administrative functions not directly related to public safety response;	Certain job classes in WSP.
d	Hazardous materials response or emergency response and cleanup;	At Department of Ecology, 8% of staff that charge to 173 State Toxics Account, are exempted.
e	Emergency public health and patient safety response and the public health laboratory;	At Department of Health, 7.8% of the General Fund-State staff are exempt.
f	Military operations and emergency management within the military department;	Military Department is exempted.
g	Firefighting;	No dedicated positions – it is assumed that staff will be absent but recalled if needed and paid for after-the-fact.
h	Enforcement officers in the department of fish and wildlife, the liquor control board, the gambling commission, the department of financial institutions, and the department	Identified by job class codes, and employees covered by the Public Safety Employees' Retirement System within DNR.

Sec.2(4)	Exemption	Notes
	of natural resources;	
l	State parks operated by the parks and recreation commission;	This agency exempted.
j	In institutions of higher education, classroom instruction,	Using the share of the Instruction activity reflected in each institution's activity report, that share of General Fund-State is exempted
	operations not funded from state funds or tuition,	Staff coded as being paid from the higher education local accounts (except the Tuition account)
	campus police and security, and	Identified by bargaining units.
	student health care;	Assumed to reside in higher education local account, which was exempted
k	Operations of liquor control board business enterprises and games conducted by the state lottery;	These agencies exempted.
l	Agricultural commodity commissions and boards, and agricultural inspection programs operated by the department of agriculture;	Commodity commissions are non-budgeted. The inspection programs were excluded by job class codes.
m	The unemployment insurance program and reemployment services of the employment security department;	Employees coded to 119-2 Unemployment Compensation Account-Federal, General Fund-Federal, and General Fund-Private/Local, and 134-1 Employment Service Administration Account are exempted.
n	The workers' compensation program and workplace safety and health compliance activities of the department of labor and industries;	Employees coded to 608 Accident Account, 609 Medical Aid Account, 03B Asbestos Account, 163-1 Worker and Community Right-to-Know Account are exempted.
o	The operation, maintenance, and construction of state ferries and state highways;	Staff coded as part of Marine Division collective bargaining units and staff coded to any program related to highway construction, maintenance, or operations are exempted.
p	The department of revenue, except for management and administrative functions not directly related to revenue generation;	Administrative and managerial job classes.
q	The office of the attorney general, except for management and administrative functions not directly related to civil, criminal, or administrative actions;	Administrative and managerial job classes, other than legal professions.
r	The board of industrial insurance appeals;	Agency removed from savings list.
s	Licensing service offices in the department of licensing that are open no more than two days per week, and no licensing service office closures may occur as a result of the section on Saturdays;	Fiscal impact too small to affect total.
t	The labor relations office of the office of financial management through November 1, 2010;	Exempts this program in OFM by 5 of the 7 days that OFM is required to take. The savings in their dedicated account was prorated to reflect this exemption.
u	The governor, lieutenant governor, legislative agencies and the office of financial management during sessions of the legislature . . . and the twenty day veto period . . .;	Agency staff in specified agencies, excluding elected officials, exempted only during four days of temporary layoff in the second fiscal year. Estimate does not include any special sessions of the Legislature.
v	The minimal use of state employees on the specified closure days as necessary to protect public assets, information technology systems, and maintain public safety.	Employees coded as holding positions requiring backfill when the employee is absent.

Individual State Agency Fiscal Note

Bill Number:	6503 S SB AMH WAYS PRIN 211	Title:	Closing state agencies	Agency:	105-Office of Financial Management

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT					
Total $					

Estimated Expenditures from:

		FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years		0.8	0.0	0.4	0.0	0.0
Account						
General Fund-State	001-1	101,753	0	101,753	0	0
	Total $	101,753	0	101,753	0	0

Estimated Capital Budget Impact:

Total $						

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2010
Agency Preparation:	Stephanie Lidren	Phone: 360-902-3056	Date: 02/02/2010
Agency Approval:	Aaron Butcher	Phone: 360-902-0406	Date: 02/02/2010
OFM Review:	Cheri Keller	Phone: 360-902-0563	Date: 02/03/2010

Request # 056-2

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The Labor Relations Office (LRO) of the Office of Financial Management is currently in the process of planning for and commencing negotiations for the 2011-13 biennium. Any negotiations resulting from the implementation of this legislation will impact the workload significantly of LRO. SSB 6503 AMH WAYS PRIN 211 is unclear on the definition of "each local unit" {Section 3(1)(a)}. If LRO were to interpret this to mean each bargaining unit, that would be approximately 150 separate negotiations that would need to be conducted for general government. If "each local unit" is interpreted to mean each location within each bargaining unit, the 150 negotiations would increase exponentially. The workload for higher education could be up to 27 separate impact bargaining agreements for 23 community colleges, Central Washington University, Eastern Washington University, Western Washington University, and The Evergreen State College.

LRO needs to be able to manage the workload associated with the impact bargaining associated with temporary layoffs while continuing the regular work associated with the implementation of the 2009-11 agreements and the bargaining for the 2011-13 agreements.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

It is unlikely that the LRO would be able to recruit the necessary positions in order to accomplish the increased workload, however we assume for costing purposes that the LRO is able to obtain qualified candidates. We anticipate negotiations related to this bill would commence on March 1, 2010.

Other Assumptions:
**150 general government impact bargaining agreements resulting from our interpretation that "each local unit" to mean bargaining unit;
**Could be as many as 27 impact bargaining agreements for higher education;
**LRO will not negotiate any agreements for the University of Washington, Washington State University, or Yakima Valley Community College;
**3 FTE Labor Negotiators, $92,000/yr, 3/1/10 - 5/31/10

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.8		0.4		
A-Salaries and Wages	69,003		69,003		
B-Employee Benefits	16,250		16,250		
C-Personal Service Contracts					
E-Goods and Services	6,000		6,000		
G-Travel	3,000		3,000		
J-Capital Outlays	7,500		7,500		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$101,753	$0	$101,753	$0	$0

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2010	FY 2011	2009-11	2011-13	2013-15
Negotiator	92,000	0.8		0.4		
Total FTE's	92,000	0.8		0.4		0.0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number:	6503 S SB AMH WAYS PRIN 211	Title:	Closing state agencies	Agency:	111-Department of Personnel

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2010	FY 2011	2009-11	2011-13	2013-15
Data Processing Revolving Account-Non-Appropriated 419-6	12,480		12,480		
Total $	12,480		12,480		

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
Account					
Data Processing Revolving Account-Non-Appropriated 419-6	12,480	0	12,480	0	0
Total $	12,480	0	12,480	0	0

Estimated Capital Budget Impact:

Total $						

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2010
Agency Preparation:	Kelly Moore	Phone: 360-664-6314	Date: 02/01/2010
Agency Approval:	Kelly Moore	Phone: 360-664-6314	Date: 02/01/2010
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 02/01/2010

Request # 15-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill requires the closure of state offices one day per month on eleven dates specified by the bill effective June 2010 through June 2011. The office closure shall result in temporary layoff of the employees of the agency. The bill exempts employees engaged in activities that are specified in the bill. The temporary lay off reduces payment of the employee proportionate to the duration of the layoff but does not impact vacation or sick leave accrual or seniority. If the employee is not scheduled to work on a designated office closure date, the agency must designate an alternative day during the month on which the employee is scheduled to work that the employee is temporarily laid off.

If the office closure prevents the performance of any action, the action shall be considered timely if performed the next business day.

Amendment AMH Ways PRIN 211 – Section 9 – Adds Washington Management Services and Exempt Management Services additional cuts totaling $10 million GF-S and other funds proportionately.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Since DOP's costs are incurred in the Data Processing Revolving Account (Fund 419), they must be recovered through increased billings to agencies or from a single source outside DOP.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

This bill will impact the Human Resource Management System (HRMS) under the responsibility of the Department of Personnel (DOP) based on the following assumptions:

DOP/Information Services Division (ISD) would need to create a new Absence/Leave Type for the temporary layoff.

A new wage type would need to be created and configured according to the specifications in the bill, to capture the monetary value of the leave and to reflect the unpaid leave on the employee's earning statement.

DOP is assuming no HRMS automation. Agencies would use existing functionality to enter the absence type each month for affected employees.

Based on a conversation with the Office of Financial Management, DOP is assuming that any office closure dates specified in this bill would not affect state pay dates that fall on the same date (i.e. April 9, 2010 and June 10, 2011 are pay dates).

DOP is assuming that there is no impact on retirement credits.

DOP is assuming that there is no impact on holiday pay calculations for part time employees.

DOP assumes any WMS or EMS employees furloughed additional days as a result of implementing Section 9 would use the same new Absence/Leave Type and Wage type. Therefore, DOP assumes the amendment results in no change to DOP's fiscal impact.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number:	6503 S SB AMH WAYS PRIN 211	Title:	Closing state agencies	Agency:	124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT					
Total $					

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

Estimated Capital Budget Impact:

	2009-11		2011-13		2013-15	
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Acquisition	0	0	0	0	0	0
Construction	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total $	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

Check applicable boxes and follow corresponding instructions:

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☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2010
Agency Preparation:	Cathy Cale	Phone: 360-664-7305	Date: 02/04/2010
Agency Approval:	Marcie Frost	Phone: 360-664-7224	Date: 02/04/2010
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 02/04/2010

Request # 10-043-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill requires state agencies and higher education employers to achieve a reduction in employee compensation for the 2009-11 Biennium. Agencies may do this one of two ways: 1) present a compensation reduction plan to the Office of Financial Management no later than May 15, 2010; or 2) adhere to the proposed closure dates outlined in the bill.

Current law requires the Department of Retirement Systems (DRS) to modify the definition of Average Final Compensation (AFC) for the Public Employees' Retirement System (PERS) to include the salary forgone by members due to taking time off without pay during the 2009-11 Biennium. This modification only applies to time off taken as an integral part of an employer's effort to reduce expenditures. Section 2(5) of this bill states that these measures qualify as an integral part of an employer's expenditure reduction efforts, and retirement benefits will not be lost due to these measures.

Sections 5 through 8 of the proposed striking amendment modify the definition of AFC in the same manner for four other retirement systems: the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System, the Teachers' Retirement System (TRS), the Public Safety Employees' Retirement System (PSERS) and the Washington State Patrol Retirement System (WSPRS).

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

The Department has identified that an additional 30 minutes per retirement calculation is required for any retiree with furlough days in their AFC. This additional 30 minutes is needed to contact the employer to determine the amount and timing of missing salary due to the employee furlough, and to adjust the retirement benefit accordingly. Approximately 5,000 PERS members retire each year, but it is unclear how many will have been furloughed during their AFC period, however, we don't anticipate the additional effort required to calculate the benefits will exceed $50,000 per year. Although the striking amendment brings four other retirement systems into this process, since many of the members are exempted in Section 2(4) and since K-12 is not included in the reductions, the impact on operations is not sufficient to change our estimate of indeterminate but less than $50,000 per year.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No impact.

Individual State Agency Fiscal Note

Bill Number:	6503 S SB AMH WAYS PRIN 211	Title:	Closing state agencies	Agency:	360-University of Washington

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT					
Total $					

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

Estimated Capital Budget Impact:

Total $						

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2010
Agency Preparation:	Kateri Schlessman	Phone: 206-543-3542	Date: 02/05/2010
Agency Approval:	Kateri Schlessman	Phone: 206-543-3542	Date: 02/05/2010
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 02/05/2010

Request # 2010-43-2

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

AMH WAYS SSB 6503 requires each state agency to create state general fund (plus tuition) savings by measures that may include but are not limited to reduced compensation, leave without pay, workforce reductions, reduced work hours, as well as voluntary retirement, separation and other incentive programs. Each agency's savings plan would be due to OFM by May 15, 2010. OFM's director would be required to review, approve and submit each plan by June 1, 2010. If a plan is not submitted and approved, the agency or institution would be required to close on the identified dates of the bill. Certain activities within state agencies are exempt from this bill.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

The fiscal impact of AMH WAYS SSB 6503 is indeterminate for the University of Washington. The UW cannot identify the fiscal impacts of SSB 6503 without knowing what the institution's overall savings target would be. Below is a narrative describing the kinds of administrative and bargaining costs the UW anticipates in relation to planning and implementing this bill. For the purposes of this narrative, the UW assumes that OFM approves a plan that does not include furloughs.

The UW would create a plan for compensation savings with the following process. First, the amount of savings needs to be identified by OFM. The Office of Planning and Budgeting, in conjunction with Academic Human Resources and staff Human Resources, would analyze these numbers to provide scenarios for the Provost, President, and Vice Provosts/Deans to consider. The likely outcome would translate to an average of an x% cut to each unit. The applicable percentage reduction target would be given to each organization's leader for that organization to develop its implementation plan. The implementation plan from each organization would then be returned to the Office of Planning and Budgeting for further discussions with leadership, analysis and review. Ultimately, a plan encompassing all UW units would be developed for OFM's review. The process does not differentiate between employee classifications. Without knowing the total UW savings target, it is not possible to develop meaningful estimates of the cost associated with developing the savings plan.

However, we can report that in order to implement any required savings two parallel processes would be required-- one in Academic Human Resources and one in UW Human Resources.

Academic Human Resources would be required to identify, by working with each academic unit, which employees are subject to the bill and approved UW plan. This would require IT staff to identify any academic employee who receives pay from tuition or state general fund dollars. Qualifying academic personnel would need to be tracked in a separate and

new manner. The time it will take to identify, report and track this process within the academic human resources database system is anticipated to require .2 FTE of IT staff effort, or approximately $20,800 of salary costs. In addition, we estimate that reviewing processes and regulations to ensure that the compensation savings has minimal impact on the academic mission of the UW would require .1 FTE business analyst efforts, or an additional $12,933.

Additionally, it would take approximately a 0.6 FTE effort of HR Specialists, or $48,000 salary costs to work with the units and the employees impacted (e.g. notices, paperwork, separation requirements, etc.). Lastly, any process such as this takes careful analysis and work on the part of the Academic Personnel leadership to ensure that the process and implementation runs as smoothly as possible is communicated correctly, and that any impacts are reviewed within the context of the UW mission. An average of .3 FTE effort of leadership staff time is estimated to cost $65,333.

Ultimately, the fiscal impact for central academic human resources would be approximately $147,000 not including benefits or materials. The costs of implementation at the local level are indeterminate at this time.

UW Human Resources would handle implementation of the plan for non-academic UW personnel. Again, without knowing what the target savings amount for the UW would be, it is impossible to fully quantify how large scale an effort would ensue. However, for sense of scale and scope, for any given classified staff member affected by this bill approximately 5 hours of HR professional work is required as well as additional support staff effort and materials to prepare notices and identify options. We estimate that for every classified staff member affected it will cost the UW approximately $210.00, including client consulting and client consulting and planning time.

For any given exempt Professional Staff member affected by this bill approximately 4.5 hours of HR professional work is required as well as additional support staff effort and materials to prepare correspondence and other notifications. We estimate that for every professional staff member affected it will cost the UW approximately $175.00.

Additionally, UW Human Resources estimates at least $7,500 in systems support costs over at least 3 months.

UW Human Resources also handles collective bargaining for the UW. It is anticipated that there would be a collective bargaining obligation over decision making about the plan and the implementation. The UW assumes it would take an estimated 8 weeks of bargaining, approximately 2 hours a week for 8 staff and 8 management for a fiscal impact of approximately $10,000.

The bill does not specifically mention the effect of temporary salary reductions on other types of retirement contributions. As such, the UW assumes that employees impacted by this bill will also receive reduced retirement contributions if they are not part of the Public Employees Retirement System.

Since the UW does not know how many staff will be impacted it is not possible to calculate the total fiscal impact of SSB 6503. However, challenges associated with current systems, the complex nature of our academic personnel appointments and the number (over 11,000) of UW staff members covered under collective bargaining agreements make efforts such as these costly.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number:	6503 S SB AMH WAYS PRIN 211	Title:	Closing state agencies	Agency:	365-Washington State University

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT					
Total $					

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

Estimated Capital Budget Impact:

Total $						

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2010
Agency Preparation:	Kelley Westhoff	Phone: 5093350907	Date: 02/03/2010
Agency Approval:	Matt Skinner	Phone: 509-335-1836	Date: 02/03/2010
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 02/05/2010

Request # 2010-46-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Requires institutions of higher education to achieve a reduction in employee compensation costs; equal to at least the cost reductions that would be achieved by implementing sections 2(2) through 2(8) of the bill. Institutions may submit a compensation reduction plan to the office of financial management (OFM) by May 15, 2010. OFM will provide target reductions for each institution and will review, approve, and submit the plans to legislative fiscal committees. Institutions that do not have an approved compensation reduction plan by June 1, 2010 must close on specified dates.

In addition to the compensation reduction plan or closure savings, Washington Management Services and Exempt employee compensation will be reduced by $10 million General Fund-State, plus proportionate amounts from other funds.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

The lead agency assumptions request that WSU only address their administrative or collective bargaining expenses in the fiscal note.

Determining the nature of reductions that will be carried out will likely occur concurrently with other strategic budget cuts anticipated in the 2010 supplemental budget. WSU would seek cost effective methods to achieve the required cuts. If renegotiation of collective bargaining agreements is necessary we estimate a minimum cost of $25,000. Other administrative costs would include system modifications, staff time, and training depending upon what method of achieving reductions is adopted. Until we have determined how the reductions will be accomplished, and the magnitude in terms of dollars and numbers of employees' affected, administrative costs are indeterminate.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number:	6503 S SB AMH WAYS PRIN 211	Title:	Closing state agencies	Agency:	375-Central Washington University

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT					
Total $					

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
Account					
Total $					

Estimated Capital Budget Impact:

Total $						

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2010
Agency Preparation:	Shelly Johnson	Phone: (509) 963-2340	Date: 02/05/2010
Agency Approval:	Shelly Johnson	Phone: (509) 963-2340	Date: 02/05/2010
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 02/05/2010

Request # 1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

It is hard to determine the cost to implement. A very rough guess would be $10,000 as we will be paying for the negotiator we use and contract with to handle the discussion plus internal staff time.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

The personal service contract is for a negotiator. All other costs will be absorbed by existing personnel.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts	10,000	10,000	20,000	20,000	20,000
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$10,000	$10,000	$20,000	$20,000	$20,000

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.