



## Alternate Revenue

**Educational Briefing  
May 28<sup>th</sup>, 2014**

# Presentation Overview

- Background
- Alternate Revenue Legislation
  - Intent
  - Voting
- Components
  - Trigger and Payment Schedule
  - Local Public Safety Enhancement Account
  - Benefit Improvement Account
- Disbursement History

# Background

- Two sources to fund benefits
- Board studied for 3 years (2006-2008)
- Legislation Proposed in 2008

# Legislation

- Intent
  - Provide revenue for public safety and protection
  - Recognize risk and physical/challenging demands
  - Negative impacts on career and accrual on adequate pension benefits
- Purpose
  - Provide local government public safety employers and the LEOFF Plan 2 with additional shared revenues when general state revenues exceed by more than five percent the previous fiscal biennium's revenue.

# Legislation

- **Vote Count**
  - Senate 48-1
  - House 82-12
  - Senate 45-2 (Final Passage/Concurrence)

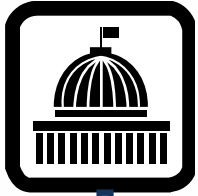
# Components

- **Trigger**
  - 5% Biennial growth in general state revenue
- **Payment Schedule**
  - 2011 - \$5 Million
  - 2013 - \$10 Million
  - 2015 - \$20 Million
  - 2017 - \$50 Million
  - Subsequent Biennia – lesser of 1/3 of biennial revenue increase or \$50 Million

# Components

- **Accounts**
  - Local Public Safety Enhancement Account (LPSEA)
  - Benefit Improvement Account (BIA)

# How it works



1. Revenue growth trigger met
2. Payment appropriated by Legislature

\$10 million transferred to LPSEA

Local Public Safety  
Enhancement Account  
(LPSEA)

\$5 million distributed  
to local government

\$5 Million (50%) transferred from LPSEA to BIA

Benefit  
Improvement  
Account





# Local Public Safety Enhancement Account

- Alternate revenue payment transferred to LPSEA
- 50% distributed to local governments
- Based on proportionate share of LEOFF Plan 2 members employed
- LPSEA funds may only be used for certain purposes
  - Enhancement of criminal justice services
  - Programs for at risk or runaway youth
  - Other public safety purposes
  - May not replace existing expenditures for these purposes

# Benefit Improvement Account

- 50% transferred from LPSEA to BIA
  - Sub-account created in LEOFF Plan 2 fund
  - Not included in plan assets
  - Only used for benefits adopted by Legislature
  - Value of account must meet/exceed value of benefit
  - Board has sole disbursement authority

# Disbursement History

- 2011 – Trigger not met
- 2013 – Trigger met, funds not appropriated

Fiscal Year	Annual General State Revenues	Biennial General State Revenues	Difference from Previous Biennium	% Change from previous	Statutory Transfer Date	Transfer Amount
2010	11,795,190,922					
2011	12,828,012,979	24,623,203,901	(110,068,281)	(0.45%)	9/30/2011	none
2012	12,995,711,687					
2013	13,742,785,039	26,738,496,726	2,115,292,825	8.59%	9/30/2013 (FY 14)	\$10 million*

# Questions?

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## EDUCATIONAL BRIEFING

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## ISSUE STATEMENT

Board members and Legislators may not have a full understanding of Alternate Revenue. Several current Board members were not on the Board at the time Alternate Revenue was studied and passed. Many current Legislators were also not in office when the legislature passed Alternate Revenue.

## OVERVIEW

LEOFF Plan 2 historically had two sources of revenue to fund plan benefits; contributions and investment earnings. Any benefit improvement must be paid for by an increase in contributions by plan members, employers, and the State.

During a three year period<sup>1</sup>, the Board researched other public safety retirement plans around the country that had developed alternate revenue sources as a means of funding improved plan benefits without raising contribution rates.

The 2008 Legislature passed a bill providing additional revenue to LEOFF Plan 2 for benefit improvements and to local government for defined public safety purposes.

## BACKGROUND

### Alternate Revenue Legislation

The 2008 Legislature passed Engrossed Substitute Senate Bill 6573 providing local government public safety employers and the law enforcement officers' and firefighters' plan 2 pension plan with additional shared revenues.

#### *Legislative Intent*

The intent of the legislation recognized the need for additional revenue to provide for public safety and protection. The legislature also recognized the physical and challenging demands of fire fighters and law enforcement officers, effect on the length of working careers, and impact on earning adequate pension benefits. Section 1 of the legislation reads, in part:

*“The legislature finds that local governments need additional revenues to provide public safety resources in order to protect the citizens of Washington*

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<sup>1</sup> 2006, 2007, 2008

*from fire and crime. The legislature finds that the current benefit formula and contributions for the law enforcement officers' and firefighters' plan 2 are inadequate to modify that formula in recognition of the shorter working careers for firefighters and police officers. The legislature recognizes that although some officers and firefighters are able to work comfortably beyond twenty-five years, the combat nature of fire suppression and law enforcement generally require earlier retirement ages. In recognition of the physical demands of the professions and the inherent risks faced by law enforcement officers and firefighters, eligibility for retirement in the law enforcement officers' and firefighters' plan 2 system has been set at age fifty-three. However, the benefit formula is designed for careers of thirty-five to forty years, making retirement at age fifty-three an unrealistic option for many."*

#### **Vote Count**

The Alternate Revenue bill was strongly supported by the 2008 Legislature. The bill was amended in the Senate Ways and Means Committee and passed by the full Senate by a vote of 48-1. The legislation was further amended on the House floor and then passed by a vote of 82-12, with 4 excused. Then Senate concurred in the House amendments and passed the legislation on final passage by a vote of 45-2, with 2 excused.

#### **Alternate Revenue Trigger and Payment Schedule**

Beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer is required to transfer, subject to appropriation, prescribed funds to the Local Public Safety Enhancement Account (LPSEA). The amounts that would be transferred to the LPSEA if the Alternate Revenue trigger is met are shown in the following schedule:

- \$5 million for 2011
- \$10 million in 2013
- \$20 million in 2015
- \$50 million in 2017

In subsequent fiscal biennia's after 2017, the amount eligible for transfer is the lesser of one-third of the general revenue increase amount or \$50 million. General state revenues mean total revenues to the General Fund-State less state revenues from property taxes.

#### **Benefits Improvement Account**

After a transfer to the LPSEA, one-half of the funds transferred into the LPSEA would then be transferred to the Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF Plan 2 Retirement Fund. The remaining funds in the LPSEA are distributed to local governments for public safety purposes.

Money transferred to the Benefits Improvement Account can only be used to fund benefits adopted by the Legislature. Benefits may be funded from the Benefits Improvement Account if the State Actuary determines that the actuarial present value of the proposed and existing benefit obligations is met or exceeded by the actuarial present value of the projected revenues to the account. The Washington State Investment Board (WSIB) is authorized to adopt investment policies and invest the money in the Benefits Improvement Account.

The Board has the sole authority to authorize disbursements from the Benefits Improvement Account, and to establish all other policies relating to the Benefits Improvement Account, which must be administered in an actuarially sound manner. Funds in the Benefits Improvement Account may not be considered assets of the plan and are not included in contribution rate calculations by the State Actuary until directed by the Board for purposes of financing benefits adopted by the Board. The LEOFF Plan 2 Board is required to include sufficient funds from the account in the LEOFF Plan 2 Fund to meet benefit obligations within 90 days of the fund's transfer into the account.

### Local Public Safety Enhancement Account (LPSEA)

The State Treasurer is responsible for the distribution of the funds in the LPSEA to local governments. Each jurisdiction's allocation is proportionate to the share of LEOFF Plan 2 membership that it employs, as determined by the Department of Retirement Systems. In the event that two jurisdictions have a contract for the provision of law enforcement or fire protection services, the two parties must agree on a revenue sharing arrangement before funds will be distributed. The LPSEA funds may only be used for the purposes of enhancement of criminal justice services, information and assistance programs for families of at risk or runaway youth, or other public safety purposes, and may not replace existing expenditures by local jurisdictions for those purposes.

### Disbursement History

The 5% required revenue growth necessary to trigger the 2011 alternate revenue payment of \$5 million was not met. The 5% revenue growth trigger was met for the 2013 alternate revenue payment. However, the \$10 million transfer was not appropriated by the legislature in the budget so there was no transfer to the LPSEA nor the Benefit Improvement Account. The table below shows the alternate revenue trigger calculations for 2011 and 2013.

Fiscal Year	Annual General State Revenues <sup>2</sup>	Biennial General State Revenues	Difference from Previous Biennium	% Change from previous biennium	Statutory Transfer Date	Transfer Amount
2010	11,795,190,922					
2011	12,828,012,979	24,623,203,901	(110,068,281)	(0.45%)	9/30/2011	none
2012	12,995,711,687					
2013	13,742,785,039	26,738,496,726	2,115,292,825	8.59%	9/30/2013 (FY 14)	\$10 million <sup>3</sup>

<sup>2</sup> The definition in RCW 41.26.802 is general state revenues; Amounts determined by the capital budget, not the operating budget.

<sup>3</sup> The 2011 scheduled payment was not appropriated in the Legislature's budget and not transferred to the LPSEA.