Commission on Government Forecasting and Accountability

MONTHLY BRIEFING ***SEPTEMBER 2005***

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INSIDE THIS ISSUE

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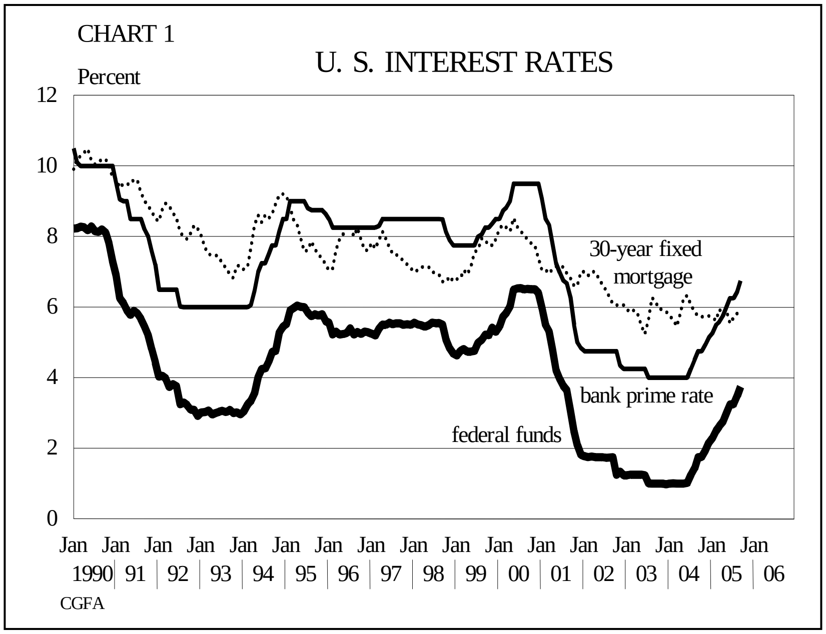
ECONOMY: The Fed, Inflation, Hurricanes, and Employment

Edward H. Boss, Jr., Chief Economist

The Federal Reserve Open Market Committee voted on September 20th to raise key monetary policy rates a quarter of one percent, the eleventh time since June 2004. As shown in the chart, the federal funds rate now stands at 3 ¾%, up from a low of 1%, and triggering an increase in the bank prime lending rate to 6 ¾%, up from a recent low of 4%. In its announcement, the Fed once again repeated the phrase that *"policy accommodation can be removed at a pace that is likely to be measured."* Thus, even in the face of the negative affect of hurricanes on economic growth, the Fed did not pause in its credit firming posture and gave no signals that it is prepared to stop any time soon. Indeed, in a live address via satellite before the annual meeting of the National Association of Business Economists (NABE) held in Chicago a week later, Federal Reserve Chairman Greenspan stressed the increasing flexibility of the economy and its ability to



handle shocks to the system and self correct. There is no Open Market Committee Meeting scheduled in October, with the next one scheduled for November 1st.

Consumer prices in August were 3.6% higher than a year earlier; the highest since early 2001, and a spike in energy prices will undoubtedly show an even larger gain in September. According to the International Strategy & Investment Group (ISI) consumer prices in September are estimated to be up 4.4% year over year, the fastest rise in 14 years. Moreover, social security payments next year will be raised by the percent increase in the CPI for the third quarter of 2005 over that recorded for the third quarter of 2004. Despite this acceleration in prices, the Federal Reserve in its statement surrounding the latest interest rate increase stated, *"Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months and longer-term expectations remain contained."* Analysts point out, however, that previous directives have used the term *"well contained"* in describing core inflation rather than just "*contained*", suggesting some increase in its inflationary concerns.

While price pressures have increased, apparently confirming the moves on interest rates by the Federal Reserve, there remains uncertainty over the impact the twin hurricanes will have on slowing economic growth. The Federal Reserve noted the tragic toll of Hurricane Katrina and the associated dislocation of economic activity, but stated, *"While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat."*

Initial estimates of the hurricanes effect on the economy by Global Insight, a service used by the Commission, reduced their estimates of real economic growth in the second half of the year by 0.7%, from real growth of 3.9% to 3.2%, with growth in the final quarter of 2005 now estimated at 2.8% instead of 3.3%. The Director of the Congressional Budget Office, in another presentation before NABE this week in Chicago, said that economic growth would be 0.75% less due to the hurricanes in the current quarter and 0.5% in the fourth quarter, a bit more optimistic than their previous estimates. There is expected to be some uplift to economic activity in 2006 as hurricane rebuilding takes place, but the extent of improvement is clouded by concerns over energy prices, particularly for heating, and for the holiday retail season. These concerns were reinforced by the Conference Board as their measure of consumer confidence showed its biggest drop in 15 years, with the percent expecting business conditions to worsen in the next 6 months almost doubling, from 10% in August to 19.8% in September.

General expectations that the hurricanes will have only temporary effects on the national economy overlook the impact they have on individual states and areas of the country. Indeed, even without the effect of hurricanes, it is important to note that, studies done at the Federal Reserve Bank of St. Louis indicate there are significant differences across states in the growth rates within phases of the national business cycle. The study concludes, for example, that in the case of the 1990-91 recession, many states were in recession for a year or more before and/or after the national economy had switched. The study went on to say that. *"Although the nation as a whole was in recession in 1980, 1990-91, and 2001, many states did not experience a recession at all during one or more of those periods. Conversely, 14 of 48 contiguous states experienced recession in the mid-1980s, when the economy was in the middle of a long expansion."*

In terms of concordance with the nation as a whole, the South and much of the so-called Rust Belt tended to be relatively in sync with the national cycle. Even here, however, differences can occur. For example, in looking at the employment situation, Illinois had a lower unemployment rate than the nation on a rather consistent basis from 1994-1997. By 1999 to the present, however, the situation had changed and the nation has consistently had a lower unemployment rate than in Illinois, the most recent gap in August being almost a full percent with the nation at a new recent low of 4.9% and Illinois at a rate of 5.8%. Similarly, the nation had regained all the jobs lost during the previous recession by October 2003 in the Household Survey and by January 2005 surpassed previous highs in the Payroll Survey, with both setting new records levels each month since. In contrast, Illinois, while showing job gains in recent months, has yet to regain the jobs lost during the last recession as measured by either job survey.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	August 2005	July 2005	August 2004
Unemployment Rate (Average)	5.8%	6.0%	6.2%
Annual Rate of Inflation (Chicago)	9.9%	1.2%	2.9%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (August)	6,472	0.7%	1.1%
Employment (thousands) (August)	6,100	0.9%	1.5%
New Car & Truck Registration (August)	38,454	31.8%	-0.9%
Single Family Housing Permits (August)	4,831	0.9%	-1.2%
Total Exports ($ mil) (July)	2,776	-12.1%	12.2%
Chicago Purchasing Managers Index (September)	60.5	23.0%	-1.3%

Property Tax in Illinois

Benjamin L. Varner, Revenue Analyst

In September, the Commission released the latest version of its property tax report. The previous reports, released in 1990, 1997, and 2001, provided a history of the property tax as well as an examination of the property tax cycle, equalized assessed value, property tax exemptions, and property tax relief. The Commission used the latest data available from the Department of Revenue (2001/2002) to update the trends associated with equalized assessed value, property tax extensions, and property tax relief in recent years. The major observations of the report are summarized on the following page:

- The property tax cycle is a two-year process that is responsible for assigning a value to a property subject to taxation, levying a tax on that property, and collecting the tax.

- Property tax is a local tax in Illinois and is administered by local officials. It is the major source of tax revenue for approximately 6,000 taxing districts.

- Local governments in Illinois are more dependent on local property taxes than are local governments in other states. Illinois property taxes generate 37.2% of local government revenue, which exceeded the national average of 27.1%.

- In 2002, equalized assessed value of real property in Illinois was $240.8 billion. Residential property ($130.5 billion) comprised the largest component of the property tax base, followed by commercial property ($56.6 billion), industrial property ($23.5 billion), farm property ($8.8 billion), and railroad property and mineral rights ($0.9 billion).

- In 2001, local governments in Illinois extended (billed) $16.9 billion in property taxes. Statewide, schools extended $10.5 billion followed by municipalities ($2.1 billion), special districts ($1.6 billion), county governments ($1.3 billion), and township governments ($0.4 billion).

- Between 1997 and 2001, the equalized assessed value (EAV) of taxable property in Illinois increased from $173.8 billion to $240.8 billion. Over this same period, property tax extensions increased from $14.1 billion to $16.9 billion. As a result, equalized assessed value has risen by over 38%, while property tax extensions have risen by approximately 20%. This contrasts from the previous 4-year period in which both EAV and extensions rose by 20%.

- Between 1991 and 2001, the equalized assessed value of farm property increased by 60.3% increasing from $5.5 billion to $8.8 billion.

- Between 1991 and 2001, the number of Illinois farms fell from 82,000 to 76,000 resulting in a 7% decrease in total farms. Over this same period, the per-acre value of farmland and buildings increased from $1,459 to $2,290 resulting in an increase of approximately 57%.

- In 2001, approximately 2.8 million property tax exemptions were granted in Illinois resulting in a valuation reduction of $8.9 billion.

Please contact the Commission office at 217/782-5322, if you would like to receive a copy (or copies) of the "*Property Taxes in Illinois – 2005 Update*". The report can also be found online on the Commission's website (see web address on page 1).

REVENUE

First Quarter Receipts End Mixed

Jim Muschinske, Revenue Manager

Overall September general revenue receipts dipped $18 million. While a modest monthly decline, most of the larger economically related sources performed quite well. However, those gains were more then offset by losses in other areas such as transfers and federal sources. September had the same number of receipting days as last year.

As mentioned, most of the economic sources experienced good gains to end the quarter. Gross personal income taxes were up $80 million, or $75 million net of refunds. Gross corporate income taxes rose by $60 million, or $56 million net of refunds. Sales taxes slowed somewhat from their earlier pace, but still posted a $30 million monthly gain. In addition, interest income jumped $8 million, inheritance tax increased $4 million, and liquor taxes managed a $1 million advance.

A number of sources declined in September. Cigarette taxes fell $29 million as a result of last year's temporary distribution change. The Cook County IGT did not receipt any transfers in September, while last year $23 million was recorded. Public utility taxes dropped $16 million, while insurance taxes posted a $12 million loss. Finally, vehicle use tax and corporate franchise taxes each dipped $1 million.

Overall transfers fell $83 million for the month. Other transfers declined $70 million primarily because no administrative chargebacks were recorded [last year $39 million in chargebacks occurred]. Riverboat transfers fell $19 million in September, while lottery transfers posted a $6 million gain. Federal sources contributed $27 million to the monthly decline.

Year to Date

Through the first quarter of the fiscal year, excluding Budget Stabilization transfers, general revenues are off $165 million. The loss is due to the timing and magnitude of fund sweeps as well as last year's significant jump in federal sources related to earlier short-term borrowing. Absent those items, revenues for the most part, continue to perform fairly well.

Gross personal income taxes are up $145 million, or $143 million net of refunds. Sales tax receipts are up $138 million, while gross corporate income taxes have increased $54 million, or $59 million net of refunds. Interest income continues to perform well as rates of return continue to rise, with receipts gaining $23 million over the first three months. All other sources experiencing year to date gains added an additional $22 million.

A number of sources are down in comparison to the same period of a year ago. Cigarette taxes are down $41 million due to a temporary tax distribution change made last fiscal year. As expected, the Cook County Intergovernmental Transfer is down, falling $37 million. Insurance taxes are off by $12 million, and inheritance tax receipts stumbled by $10 million.

Overall transfers are down $167 million year to date due to a falloff in other transfers stemming from less statutory fund sweeps and less chargeback activity. While riverboat transfers and direct receipts are down $27 million, lottery transfers are ahead by an equal amount. Federal sources are down by $282 million, which is due to $434 million in transfers in 2004 to the general funds stemming from short-term borrowing used to pay down the backlog in Medicaid bills.

While overall revenues, excluding Budget Stabilization Fund transfers, are down thus far in FY 2006, most of those declines were anticipated. For example, due to timing of federal related sources last year, it is not at all surprising to be down early this fiscal year. Similarly, due to a temporary change in cigarette tax distribution experienced last year, a falloff in the first quarter was anticipated. In addition, the decline in other transfers early in the year was also forecast, based on the statutory timing of fund sweeps.

Despite these items that thus far have served to suppress revenue growth, most of the economically related sources such as income and sales have continued to perform well and are actually running somewhat ahead of expectations. In order to reach the Commission's FY 2006 forecast presented in August, revenues must increase 3.9%.

GENERAL FUNDS RECEIPTS: SEPTEMBER

FY 2006 vs. FY 2005
($ million)

Revenue Sources	SEPT. FY 2006	SEPT. FY 2005	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$796	$716	$80	11.2%
Corporate Income Tax (regular)	278	218	$60	27.5%
Sales Taxes	602	572	$30	5.2%
Public Utility Taxes (regular)	91	107	($16)	-15.0%
Cigarette Tax	32	61	($29)	-47.5%
Liquor Gallonage Taxes	13	12	$1	8.3%
Vehicle Use Tax	3	4	($1)	-25.0%
Inheritance Tax (Gross)	22	18	$4	22.2%
Insurance Taxes and Fees	62	74	($12)	-16.2%
Corporate Franchise Tax & Fees	15	16	($1)	-6.3%
Interest on State Funds & Investments	10	2	$8	400.0%
Cook County IGT	0	23	($23)	n/a
Other Sources	26	26	$0	0.0%
Subtotal	$1,950	$1,849	$101	5.5%
Transfers				
Lottery	55	49	$6	12.2%
Riverboat transfers & receipts	60	79	($19)	-24.1%
Other	16	86	($70)	-81.4%
Total State Sources	$2,081	$2,063	$18	0.9%
Federal Sources	$489	$516	($27)	-5.2%
Total Federal & State Sources	$2,570	$2,579	($9)	-0.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($77)	($72)	($5)	6.9%
Corporate Income Tax	($56)	(52)	($4)	7.7%
Subtotal General Funds	$2,437	$2,455	($18)	-0.7%
Short-Term Borrowing	$0	$0	$0	N/A
HPF and HHSMTF Transfers	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$2,437	$2,455	($18)	-0.7%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 3-Oct-05

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2006 vs. FY 2005

($ million)

Revenue Sources	FY 2006	FY 2005	CHANGE FROM FY 2005	% CHANGE
State Taxes				
Personal Income Tax	$2,014	$1,869	$145	7.8%
Corporate Income Tax (regular)	335	281	$54	19.2%
Sales Taxes	1,811	1,673	$138	8.2%
Public Utility Taxes (regular)	269	250	$19	7.6%
Cigarette Tax	100	141	($41)	-29.1%
Liquor Gallonage Taxes	40	38	$2	5.3%
Vehicle Use Tax	10	10	$0	0.0%
Inheritance Tax (Gross)	59	69	($10)	-14.5%
Insurance Taxes and Fees	82	94	($12)	-12.8%
Corporate Franchise Tax & Fees	43	42	$1	2.4%
Interest on State Funds & Investments	31	8	$23	287.5%
Cook County IGT	40	77	($37)	-48.1%
Other Sources	114	115	($1)	-0.9%
Subtotal	$4,948	$4,667	$281	6.0%
Transfers				
Lottery	169	143	$26	18.2%
Riverboat transfers & receipts	169	195	($26)	-13.3%
Other	98	265	($167)	-63.0%
Total State Sources	$5,384	$5,270	$114	2.2%
Federal Sources	$1,272	$1,554	($282)	-18.1%
Total Federal & State Sources	$6,656	$6,824	($168)	-2.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($196)	($194)	($2)	1.0%
Corporate Income Tax	($67)	($72)	$5	-6.9%
Subtotal General Funds	$6,393	$6,558	($165)	-2.5%
Short-Term Borrowing	$0	$0	$0	N/A
HPF and HHSMTF Transfers	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$276	$0	$276	N/A
Total General Funds	$6,669	$6,558	$111	1.7%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.

CGFA 3-Oct-05

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2006 ESTIMATE vs. FY 2005 ACTUAL

($ million)

Revenue Sources	AUG-05 ESTIMATE FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 EST.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	$9,217	$2,014	$7,203	$1,869	$199	2.8%
Corporate Income Tax (regular)	1,614	335	$1,279	281	$12	0.9%
Sales Taxes	6,890	1,811	$5,079	1,673	$157	3.2%
Public Utility Taxes (regular)	1,072	269	$803	250	($3)	-0.4%
Cigarette Tax	405	100	$305	141	($4)	-1.3%
Liquor Gallonage Taxes	150	40	$110	38	$1	0.9%
Vehicle Use Tax	32	10	$22	10	$0	0.0%
Inheritance Tax (Gross)	300	59	$241	69	$0	0.0%
Insurance Taxes and Fees	342	82	$260	94	$12	4.8%
Corporate Franchise Tax & Fees	185	43	$142	42	$3	2.2%
Interest on State Funds & Investments	96	31	$65	8	$0	0.0%
Cook County IGT	340	40	$300	77	($56)	-15.7%
Other Sources	445	114	$331	115	($21)	-6.0%
Subtotal	$21,088	$4,948	$16,140	$4,667	$300	1.9%
Transfers						
Lottery	625	169	$456	143	($15)	-3.2%
Riverboat transfers & receipts	688	169	$519	195	$15	3.0%
Other	770	98	$672	265	$38	6.0%
Total State Sources	$23,171	$5,384	$17,787	$5,270	$338	1.9%
Federal Sources	$4,791	$1,272	$3,519	$1,554	$382	12.2%
Total Federal & State Sources	$27,962	$6,656	$21,306	$6,824	$720	3.5%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	($899)	($196)	($703)	($194)	($3)	0.4%
Corporate Income Tax	(323)	($67)	($256)	(72)	$48	-15.8%
Subtotal General Funds	$26,740	$6,393	$20,347	$6,558	$765	3.9%
Short-Term Borrowing	$0	$0	$0	$0	($765)	N/A
HPF and HHSMTF Transfer	$0	$0	$0	$0	($1,002)	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	$0	($276)	N/A
Total General Funds	$27,016	$6,669	$20,347	$6,558	($1,278)	-5.9%

CGFA 3-Oct-05

GENERAL FUNDS PERFORMANCE TO DATE
GOVERNOR'S OFFICE OF MANANGEMENT AND BUDGET

FY 2006 ESTIMATE vs. FY 2005 ACTUALS

($ million)

Revenue Sources	GOMB MAY-05 Estimate FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 Est.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	$9,125	$2,014	$7,111	$1,869	$107	1.5%
Corporate Income Tax (regular)	1,583	335	$1,248	281	($19)	-1.5%
Sales Taxes	6,873	1,811	$5,062	1,673	$140	2.8%
Public Utility Taxes (regular)	1,069	269	$800	250	($6)	-0.7%
Cigarette Tax	400	100	$300	141	($9)	-2.9%
Liquor Gallonage Taxes	150	40	$110	38	$1	0.9%
Vehicle Use Tax	35	10	$25	10	$3	13.6%
Inheritance Tax (Gross)	285	59	$226	69	($15)	-6.2%
Insurance Taxes and Fees	327	82	$245	94	($3)	-1.2%
Corporate Franchise Tax & Fees	183	43	$140	42	$1	0.7%
Interest on State Funds & Investments	65	31	$34	8	($31)	-47.7%
Cook County IGT	340	40	$300	77	($56)	-15.7%
Other Sources	472	114	$358	115	$6	1.7%
Subtotal	$20,907	$4,948	$15,959	$4,667	$119	0.8%
Transfers						
Lottery	628	169	$459	143	($12)	-2.5%
Gaming Fund Transfer	707	169	$538	195	$34	6.7%
Other	844	98	$746	265	$112	17.7%
Total State Sources	$23,086	$5,384	$17,702	$5,270	$253	1.4%
Federal Sources	$4,791	$1,272	$3,519	$1,554	$382	12.2%
Total Federal & State Sources	$27,877	$6,656	$21,221	$6,824	$635	3.1%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	($890)	($196)	($694)	($194)	$6	-0.9%
Corporate Income Tax	(316)	(67)	($249)	(72)	$55	-18.1%
Subtotal General Funds	$26,671	$6,393	$20,278	$6,558	$696	3.6%
Short-Term Borrowing	$0	$0	$0	$0	($765)	N/A
HPF and HHSMTF Transfer	$0	$0	$0	$0	($1,002)	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	$0	($276)	N/A
Total General Funds	$26,947	$6,669	$20,278	$6,558	($1,347)	-6.2%

CGFA 3-Oct-05

PENSIONS
Proposed Rules for P.A. 94-0004 (SB 0027)

Tim Blair, Pension Manager

The Rules and Personnel Committee of the Teachers' Retirement System's Board of Trustees approved draft rules for administering Public Act 94-0004 (SB 27) on September 21, 2005 and the full TRS Board of Trustees approved promulgation of the proposed rules package on September 26, 2005. The proposed Teachers' Retirement System administrative rules for implementing Public Act 94-0004 (SB 0027) have been published for public comment in the October 7, 2005 Illinois Register.

The proposed rules apply to only two of the provisions of Public Act 94-0004, requiring school districts to contribute to TRS for salary increases above 6% during the final average salary period and for the establishment of sick leave service credit based on sick leave that is granted in excess of the "normal annual sick leave allotment."

<u>Salary Increase Payments – Public Act 94-0004</u>

P.A. 94-0004 provides a mechanism by which the liability associated with salary increases above a certain level may be shifted to the school districts providing those salary increases. The Act provides that during the years used to determine final average salary, the employer must pay to TRS an amount equal to the present value of the increase in benefits resulting from salary increases above 6%. The employer contribution required by P.A. 94-0004 may be paid in a lump sum within 30 days of the receipt of the bill from TRS. The Act specifies that TRS must calculate the contribution amount using the same actuarial assumptions and tables used for the most recent actuarial valuation.

P.A. 94-0004 states that it applies to salaries paid under contracts or collective bargaining agreements entered into, amended, or renewed after the effective date of the Amendatory Act.

<u>Salary Increase Payments - Proposed Rules</u>

The rules proposed by the TRS Board of Trustees at the September 26, 2005 meeting require the employer to make a one-time contribution to TRS if salary increases in excess of 6% are granted to an employee during the employee's final average salary period, generally the last four years of service. To calculate the required employer contribution, first the monthly benefit based on the member's actual final average salary, including annual increases up to 20%, will be determined. Then, the monthly benefit based on the member's final average salary, limited to annual increases of 6% will be calculated. Finally, the difference in these two annuities will be multiplied by an annuity factor based on the member's life expectancy and investment return assumptions of TRS. The local employer will be required to contribute this amount to TRS.

The proposed rules specifically exclude the required employer contribution when a member receives a monthly benefit that is not based on the member's final average salary. Effectively, no employer contributions will be required when a member's annuity is based on the money purchase formula. The money purchase formula is not available to teachers who first become members of TRS after July 1, 2005.

<u>Sick Leave Service Credit – Public Act 94-0004</u>

Currently, members of TRS may establish up to 2 years of service credit for unused and uncompensated sick leave without making contributions. P.A. 94-0004 provides that if days granted by an employer are in excess of the normal annual sick leave allotment, the employer is required to contribute to TRS the normal cost of benefits that are based on this excess sick leave.

<u>Sick Leave Service Credit - Proposed Rules</u>

The proposed rules require TRS employers to make a contribution to TRS if the employer grants sick leave days in excess of the “normal annual sick leave allotment,” **defined as the amount of sick leave granted by a TRS employer to its teachers under a collective bargaining agreement or employment policies**. An employer’s administrators will have the same normal annual sick leave allotment as for its teachers. The maximum number of sick leave days that may be considered the normal annual sick leave allotment is not defined in stature or in the proposed rules.

To calculate the required contribution, TRS first determines the number of sick leave days that have been granted in excess of an employer’s normal annual sick leave allotment during the final average salary period. The number of days is multiplied by the member’s highest salary rate and the result is multiplied by the total normal cost rate during the last year of service. The rules provide for allocating cost among employers if more than one employer has granted excess sick leave.

Exemption from Salary Increase and Sick Leave Credit Contributions – Proposed Rules

The proposed rules exempt employers from the required salary increase and sick leave credit contributions for collective bargaining agreements and employment contracts in effect on June 1, 2005 (the effective date of Public Act 94-0004). The exempt period may extend up to three school years (or 2011, whichever is earlier) beyond the expiration of the CBA or employment contract if the exempt CBA or contract requires advance notification for the member of the intent to retire under the terms of the exempt contract.

Loss of Contribution Exemption – Proposed Rules

Employers will lose the exemption from the required employer contributions if the salary or sick leave provisions of an exempt contract are renegotiated, unless the contract is reopened to reduce a salary incentive or sick leave incentive.

Members Not Covered by Contracts or Collective Bargaining – Proposed Rules

In determining the exemptions of employers, the proposed rules specify that for TRS members not covered by collective bargaining agreements or employment contracts, TRS will accept employment policies as evidence of a contractual agreement in the granting of salary increases and the granting of sick leave. The policy must have been in effect prior to June 1, 2005.

These employment policies will be considered one year contracts when determining an employer’s exemption, unless the employer has other employees under a collective bargaining agreement. In this case, the contributions exemption for the employment policy will end at the same time as the collective bargaining agreement exemption.