

MIINUTES OF THE MEETING  
STATE ADMINISTRATION COMMITTEE  
MONTANA STATE SENATE

January 26, 1983

The meeting of the State Administration Committee was called to order by Chairman Pete Story on January 26, 1983 at 10:30 a.m. in room 331 of the State Capitol, Helena, Montana.

ROLL CALL: Roll was called and all members were present.

SENATE JOINT RESOLUTION NO. 9 was introduced for hearing by SENATOR JOHN MOHAR.

SENATE JOINT RESOLUTION NO. 9 is A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA DIRECTING THE DEPARTMENT OF ADMINISTRATION TO APPOINT A MEMBER OF THE HOMEBUILDING INDUSTRY TO THE MONTANA BUILDING CODE ADVISORY COUNCIL.

Senator Mohar said that he checked with Morris Bursett who is the director of the department of administration and he has no problem with this. A handout was given to show how this was created. EXHIBIT 1. The Pacific Northwest Electric Power and Conservation Act have a tentative plan out for review, and in that they are calling for stricter building codes with regards to conservation. He said that he checked with Glenn Mueller with the Power Council and he intends to ask for another joint resolution which will create an interim committee to site building codes. Because home builders are not represented on the council right now he thought it to be imperative to have them in on this council also.

PROPONENTS were asked for.

JOHN HOLLOW, representing the Montana Home Builders, was introduced by Senator Mohar who presented the committee with a handout shown as EXHIBIT 2. He added, because of your interest in having someone represent at state level, take into account what happens in the field when a building code is implemented. A home builder is not yet represented in the council. He said that it will be a high cost period over the next few months while they are trying to implement this. The people in this field should be represented.

CHARLES W. CHAMBERLAIN, representing the Montana Chapter, Associated Builders and Contractors, Inc. testified that they support this piece of legislation. He stated that there are

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very skilled and very competent on the council but practical practioner of the art seems to be lacking there.

W. JAMES KEMBEL, representing the Department of Administration, Building Codes Division testified as a proponent and submitted written testimony for the record shown as EXHIBIT 3.

LARRY TANGLEN, metal building dealer from Sidney, Montana, testified as a proponent to S.J.R. 9. He stated that there is a concern of those in the metal building industry in relating to administration of the Montana Building Codes and would ask this committee to consider someone in the metal building industry on the council. He said that they would like to assure the state department administration that there are capable people east of Billings, Montana that would like to serve on a committee such as this.

There were no other proponent nor were there any opponents.

QUESTIONS were asked of the committee.

SENATOR TOWE asked the difference between a member of the conventional home building industry and a licensed building contractor.

JOHN HOLLOW said he wondered also if thought one way to approach this is to change "c" and put in "member of the conventional home builders association". Right now the building contractor has been like a general contractor building with heavy equipment and like that, not building homes. If these provisions in the codes were conservatism that the power council can get in or would directly effect the Montana Home Builders Association and those of us that build homes. It is possible to have a licensed building contractor who has never built a home.

SENATOR TVEIT asked if they would object to having a metal building contractor on the council.

JOHN HOLLOW stated that he would not.

SENATOR STORY said that there would be no fiscal note because this is a resolution stating what to do or not to do.

JIM KIMBEL told the committee that they could either add a metal contractor as an extention or in tune of this little reviewing appointments to that committee of that council and at that time the general contrator reference would be considered.

SENATOR MOHAR CLOSED on SJR 9 saying this bill is in line with the conservation home building we will see in the future.

SENATE BILL NO. 217 was presented to be heard.

SENATE BILL NO. 217 is "AN ACT TO TRANSFER RESPONSIBILITY FOR PREPARATION OF THE STATEWIDE COST ALLOCATION PLAN TO THE DIRECTOR OF THE DEPARTMENT OF ADMINISTRATION FROM THE BUDGET DIRECTOR; AMENDING SECTION 14-3-110, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

SENATOR JACK HAFLEY, District 9, introduced S.B. 217 and states that SB 217 does what the title says, it crosses out the word "BUDGET" and adds "ADMINISTRATION" after the word "DIRECTOR". He stated that the Budget Director is reducing some of the work load and this will contribute to the reduction of one FTE. He introduced PROPONENTS.

TOM CROSSER with the office of Budget, Program and Planning stated that he has had experience with the cost allocation plan although he has not done it for several years. He said it takes costs associated with centralized services functions such as the accounting division in the Department of Administration and allocate that cost based on a unit factor of terms of the accounting division. The agency used this number in conjunction with other numbers in other centralized services either directly billed or allocated in the statewide cost allocation plan to determine the indirect cost rate the federal government will use for their program. He stated that he checked on the move and it makes sense to him because of the many other connected functions in that department. Mr. Crosser submitted a written statement shown as EXHIBIT 4 and asked support.

DAVE ASHLEY with the Department of Administration testified as a proponent as stated that they were willing to take this activity from the Budget Office and stated that the only thing he would add is that there are approximately 14 different distributable costs that are eligible for reimbursement from federal grant activities and approximately 8 of those are direct responsibilities of their department. He said that they do not anticipate any problems. It is once a year activity and would take about a 2 person week.

QUESTIONS were called from the committee.

SENATOR TOWE asked if it only takes 2 person weeks, why do we have to have a bill?

MR. CROSSER stated it is part of a reorganization of the budget office and there are other functions in the accounting centralized administration that are being transferred in addition.

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SENATOR TOWE stated that one of his concerns is that the interest on Fish and Game licenses is allocated to the general fund and we asked why they didn't let that interest go back into the Fish and Game Department and the answer was "no, we have to take care of some of the cost. He asked if that was what they were talking about.

MR. CROSSER said that its a portion of the cost. When an agency negotiates an indirect cost proposal to the federal government, they use their internal indirect cost as well as the state wide allocated indirect cost.

SENATOR HAFLEY closed on SENATE BILL 217.

ACTION was called for on SENATE BILL NO. 217.

SENATOR TOWE MOVED that SENATE BILL NO. 217 DO PASS.

MOTION PASSED UNANIMOUSLY.

HEARING was opened to SENATE BILL NO. 216.

SENATE BILL NO. 216, "AN ACT PROVIDING A CONSISTENT EFFECTIVE DATE FOR SERVICE RETIREMENT BENEFITS PAID TO MEMBERS OF THE PUBLIC EMPLOYEES', HIGHWAY PATROLMEN'S, SHERIFFS', GAME WARDENS', MUNICIPAL POLICE OFFICERS', AND FIREFIGHTERS' UNIFIED RETIREMENT SYSTEMS; CLARIFYING PROVISIONS CONCERNING THE GAME WARDENS' RETIREMENT SYSTEM; AMENDING SECTIONS 19-3-903, 19-6-501, 19-7-501, 19-8-601, 19-8-604, 19-9-801, AND 19-13-701, MCA; REPEALING SECTION 19-8-602, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

SENATOR STIMATZ introduced SB 216 stated he introduced this bill at the public employees retirement division. He stated that this is a housekeeping bill that deals with the date of the major retirement plan. Senator Stimatz introduced Larry Nachtsheim.

LARRY NACHTSHEIM, Director of the Public Employees Division, presented the committee with a handout, shown as EXHIBIT 5. The purpose of the bill is to show that anyone retiring from the systems shown in the bill will have a retirement date of the 1st day of the month following the last day of membership service. He stated that people don't file their retirement applications.

SENATOR STORY called for further PROPONENTS.

TOM SCHNEIDER, Executive Director of the Montana Public Employees Association, representing employees covered by

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PERS, highway patrol retirement system and the game warden system. He stated that this is a good bill. The biggest complaint they have is the one that states employees get their check the month following their application. He stated that when people retire it is traumatic and they do not think of filing their retirement application. He asked for the support of this bill.

Further opponents were called.

OPPONENTS were called. There were none.

SENATOR STIMATZ closed on S.B. 216.

The meeting was called into EXECUTIVE SESSION to act on SENATE BILL NO. 216.

SENATOR TOWE MOVED that SENATE BILL 216 DO PASS.

MOTION PASSED UNANIMOUSLY.

SENATE BILL NO. 211 was introduced to be heard.

SENATE BILL NO. 211: "AN ACT PROVIDING ADEQUATE FUNDING FOR THE MONTANA HIGHWAY PATROLMEN'S RETIREMENT SYSTEM BY INCREASING THE STATE'S CONTRIBUTION TO THE SYSTEM; PROVIDING THAT THESE CONTRIBUTIONS BE PAID MONTHLY; AMENDING SECTION 19-6-404, MCA; AND PROVIDING AN EFFECTIVE DATE."

SENATOR FULLER introduced SB 211 saying that this is a request of the PERS board and an actuarial study was done on the current status of the status of the highway patrolmen's fund and that it is found to be wanting. He said that they are facing issues that other retirement systems are facing all over the country.

PROPONENTS were called.

LARRY NACHTSHEIM, Director of the Public Employees Division, spoke as a proponent and submitted a handout of his testimony herein shown as EXHIBIT 6. EXHIBIT 7 is a ACTUARIAL VALUATION.

TOM SCHNEIDER, Executive Director of the Montana Public Employees Association, testified speaking on behalf of the Montana Highway Patrolmen. He stated that Mr. Nachtsheim spelled it out very clearly, but that he would add if the series in increases of funding fee, employees themselves would move from 3% to 6 1/2% so all the increase funding hasn't been put onto the employer. It is dangerous to have

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a system that shows an increase in funded liability. He stated that he thinks the board was justified in seeking the increase in contributions because a two million dollar award or about a 20% increase in unfunded liability over a two year period would raise the eyebrows of any trustee or retirement people, so they do support it.

There were no other proponents or opponents.

Questions were called for from the committee.

SENATOR MANNING asked if this fund has been actuarially funded.

LARRY NACHTSHEIM said yes it was.

SENATOR STORY asked if the Judges is the only other surprise they have left. Mr. Nachtsheim said it was.

MR. NACHTSHEIM said they are suggesting some of the contributions made by the city be reduced.

SENATOR STORY asked about the era of low interest rates.

MR. NACHTSHEIM stated that it is kept low because it is a 40 year projection. When someone retires in a higher salary bracket, we usually replace them with someone in a lower salary bracket.

SENATOR HAMMOND asked what is taken out of the patrolmen salaries.

MR. NACHTSHEIM said the current rate is 6 1/2% and by law you cannot change this unless you provide benefits to compensate for this, though you could change it for future employees.

SENATOR STORY stated that they do not want to make it so askew that they believe it is free benefits.

SENATOR HAMMOND asked if this was no from here on and hear after.

MR. NACHTSHEIM said that after 40 years, if it goes right, they can cut back.

SENATOR TOWE questioned the interest rate 7%, stating that was such a low rate in today's economy. He said they are talking about 11% as an average with all full deduction assessments, budgeting 12%, actual coal tax budget 14.3/8% and

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you (meaning Mr. Nachtsheim) say we should accept an actuary over 7% and are going to charge the state of Montana \$373,000 because of that.

SENATOR STORY said he realizes that they cannot take present employees and up their contributions and would be much more comfortable with those new ones coming on line in the future.

SENATOR STIMATZ stated that there will not be much of an increase in patrolmen.

The Governor's budget was questioned but it doesn't seem prepared for an increase of patrolmen.

SENATOR STORY stated that what he would like to know, in addition to what they have here, if they jacked it up for highway patrolmen themselves to 10%.

SENATOR STORY said that he is asking for the figures, not on the ones enrolled, but on ones that will be coming in plus the 10 this committee is getting to increase their percent.

MR. NACHTSHEIM directed their attention to the schedule on page 7 of the Actuarial Valuation (EXHIBIT 7).

SENATORS HAMMOND and MARBUT asked what happens when there is an early withdrawal.

MR. NACHTSHEIM stated that they just get their contribution back with interest only on their contributions.

SENATOR STORY asked if the committee comfortable with the state paying 20%.

The answer was "no".

SENATOR TOWE stated, that what is being suggested is that 3.78% increase is required and what this bill is trying to do is put the entire 3.78% on the employer, the state. It could be that you could put half on the state and half on the employee, but you only need a total of 3.78%.

SENATOR STORY replied that you cannot take any from the present employee but that you would have to take it all from those coming in.

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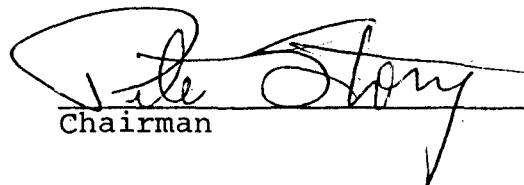
TOM SCHNEIDER said that that is the problem and what Larry was trying to say; the new employee coming in, that is not here right now, is only going to have to have a contribution from their contribution plus the state of 18%, so if you are going to add any portion of this to them, they will be paying this addition for something they will never receive, because they are already contributing enough for their benefits. You will be asking them to be picking up the unfunded liability for the people who worked in the past. You can do it, but is that fair. If the law had been written right in the first place and was based on percent of salary rather than percent of drivers license fees this situation would have never come about.

SENATOR TOWE stated his concern is that maybe over a 40 year period a 7% is realistic. We don't know what the interest is going to be in 20 years so he doesn't buy the 7% figure plus the fact; as Larry says, is a push already to add more people, and if you add more people you will add younger people and their cost is 18% and we are getting 23%. Those two factors suggest that we are not being all that risky by saying 'lets wait a few years to see if the younger employees are not going to pick up that amount and why ask the employees to pay it now'. If we are wrong, the taxpayers will never get it back.

There being no more discussion on SENATE BILL 216, Senator Stimatz CLOSED on S.B. 216.

NO ACTION was taken on S.B. 216.

It was moved to adjourn the meeting at 11:45 a.m.

  
Chairman



January 26, 1983

COMMITTEE ON

## VISITORS' REGISTER

[illegible]

(Please leave prepared statement with Secretary)

ROLL CALL

STATE ADMINISTRATION

COMMITTEE

47th LEGISLATIVE SESSION -- 1983

Date 1/26/83

SENATE  
SEAT #

[illegible]

Each day attach to minutes.



John Holloway  
3-5-790

43 legislature  
1974

EXHIBIT 8  
State Administration  
Jan 26, 1983

SIXTIETH LEGISLATIVE DAY

967

That the Secretary of the Department of Housing and Urban Development is strongly requested to reinstate those letters of feasibility so urgently needed in order to complete the projects at Thompson Falls, Great Falls, Butte, and Bozeman.

BE IT FURTHER RESOLVED, that a copy of this resolution be sent to the Secretary of the Department of Housing and Urban Development. Referred to Committee on Constitution, Elections and Federal Relations.

SENATE RESOLUTION NO. 34

Introduced by Carl

A RESOLUTION OF THE SENATE OF THE STATE OF MONTANA REQUESTING THE DEPARTMENT OF ADMINISTRATION TO CREATE A BUILDING CODE ADVISORY COUNCIL AND DEFINING THE MEMBERSHIP OF SUCH A COUNCIL.

WHEREAS, the construction industry is one of Montana's major industries, vital to this state's overall economy, and

WHEREAS, the construction industry touches the lives of every Montanan through the structures it creates, and

WHEREAS, the construction industry is extremely complex and diverse and requires many specialized skills for the completion of any one project, and

WHEREAS, each of these specialty areas is guided by building codes and regulations which must be harmonized if the construction industry is to operate efficiently and effectively in the public interest, and

WHEREAS, the intent of this resolution is to promote uniformity in the construction industry, and

WHEREAS, harmony and uniformity can be achieved best through mutual discussion and cooperation among representatives of a cross section of the industry working jointly in an industry council, and

WHEREAS, the former building code council has been abolished through executive reorganization and its functions transferred to the department of administration, and

WHEREAS, there no longer exists a statutory building code council which could provide a basis for mutual cooperation and discussion necessary to efficiency, harmony and uniformity within the industry.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE OF THE STATE OF MONTANA:

That the department of administration is requested to create a building code advisory council of eleven (11) members representing the following cross-section of the construction industry:

(1) Seven (7) members appointed by the department of administration, who serve at its pleasure, as follows:

- (a) one (1) licensed architect;
- (b) one (1) licensed professional engineer;
- (c) one (1) licensed building contractor;
- (d) one (1) municipal building inspector;
- (e) one (1) modular building manufacturer;
- (f) one (1) mobile home manufacturer or one (1) mobile home retail dealer;

(g) one (1) member of the public who is not a public office holder, licensed architect, licensed professional engineer, licensed building contractor, municipal building inspector, modular building manufacturer, or mobile home manufacturer or mobile home retail dealer; and

(2) Four (4) members as follows:

(a) the director of the department of health and environmental sciences or his designee;

(b) an electrician appointed by the board of electricians;

(c) a licensed plumber appointed by the board of plumbers;

(d) the state fire marshal or his designee.

Referred to Committee on Business and Industry.

#### SENATE RESOLUTION NO. 35

Introduced by Lynch, Story, Harrison, Keenan, Jensen, Goodheart, Zody, Vainio, Shea, Deschamps, Carl

#### A RESOLUTION OF THE SENATE OF THE STATE OF MONTANA URGING THE INSTITUTION OF DAILY AMTRAK SERVICE ON THE SOUTHERN ROUTE IN MONTANA.

WHEREAS, the northern route of Amtrak has enjoyed daily service since the advent of Amtrak, and

WHEREAS, the southern route has only had service three times a week each way, and

WHEREAS, had the southern route daily service, it would have made for a more efficient operation by utilizing the available facilities, and

WHEREAS, the public would have more reason to use its service on a daily basis.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE OF THE STATE OF MONTANA:

That the Senate of the State of Montana urges that Amtrak initiate daily service on its southern route in Montana, and

BE IT FURTHER RESOLVED, that copies of this resolution be sent to the Montana congressional delegation and to the national railway passenger corporation.

Referred to Committee on Business and Industry.

Senator Groff moved that a rule be drafted that all Conference Committee reports be placed on Second Reading for discussion and then be moved to Third Reading to be voted upon and the rule to go into effect during the Special Session. Motion carried.

Substitute motion was made by Senator Lynch that Senator Groff's motion be referred to the Rules Committee. Motion carried.

#### INTRODUCTION OF HOUSE BILLS

The following House Bills were introduced, read and referred:

House Bill No. 153, introduced by McKittrick, Lee, Healy, Brand, Glennen, Menahan, Baeth, Huennekens, Colberg, Lynch, Zimmer: A bill for an act entitled: "An act to amend Section 11-1932, R.C.M. 1947, increasing minimum wages of firemen." Referred to Committee on Labor and Employment Relations.

FOR SJR 9

EXHIBIT 2  
State Ad.  
Jan. 26, 1983

*Senate Resolution No 34*

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WHEREAS, the construction industry touches the lives of every Montanan through the structures it creates, and

WHEREAS, the construction industry is extremely complex and diverse and requires many specialized skills for the completion of any one project, and

WHEREAS, each of these specialty areas is guided by building codes and regulations which must be harmonized if the construction industry is to operate efficiently and effectively in the public interest, and

WHEREAS, the intent of this resolution is to promote uniformity in the construction industry, and

WHEREAS, harmony and uniformity can be achieved best through mutual discussion and cooperation among representatives of a cross section of the industry working jointly in an industry council, and

WHEREAS, the former building code council has been abolished through executive reorganization and its functions transferred to the department of administration, and

WHEREAS, there no longer exists a statutory building code

*Senate Resolution No. 34*

council which could provide a basis for mutual cooperation and discussion necessary to efficiency, harmony and uniformity within the industry.

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- ✓(a) one (1) licensed architect;
- ✓(b) one (1) licensed professional engineer;
- ✓(c) one (1) licensed building contractor;
- ✓(d) one (1) municipal building inspector;
- (e) one (1) modular building manufacturer;
- (f) one (1) mobile home manufacturer or one (1) mobile home retail dealer;
- ✓(g) one (1) member of the public who is not a public office holder, licensed architect, licensed professional engineer, licensed building contractor, municipal building inspector, modular building manufacturer, or mobile home manufacturer or mobile home retail dealer; and

(2) Four (4) members as follows:

WITNESS STATEMENT

Name W. JAMES KEMBEL Committee On STATE ADMIN.  
Address \_\_\_\_\_ Date 1/26/83  
Representing DEPT. OF ADMIN.  
BUILDING CODES DIV. Support X  
Bill No. SJR 9 Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. The Department would welcome the addition of a representative of the conventional homebuilding industry to the Montana Building Codes Advisory Council.
2. The representative's input into the code enforcement process will assist the Department to better serve the needs of the public and construction industry. During this time of depressed housing market their input is even more valued.
3. The Council advises the Department on code adoptions, operational procedures and other related code enforcement activities.
4. The Council currently has eleven members which represent architects, engineers, building contractors, municipal building inspectors, modular building manufacturers, mobile home industry, board of plumbers, board of electricians, state fire marshal, department of health.
5. The council was created by Senate Resolution 34 during the 43rd Legislative Assembly.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.



NAME: Thomas L. Crosser DATE: JAN 26

ADDRESS: Office of Budget & Program Planning

PHONE: 449-3084

REPRESENTING WHOM? Governor's Office

APPEARING ON WHICH PROPOSAL: SB 217

DO YOU: SUPPORT? ☒ AMEND? ☐ OPPOSE? ☐

COMMENTS: (see attached)

SENATE BILL 217

DEPARTMENT OF ADMINISTRATION  
Room 331 EXHIBIT 4b  
WED. 26<sup>th</sup> of JAN  
10:00 to 12:00 AM - 3rd  
Bill

Senate Bill 217 is an act to transfer responsibility for the preparation of the Statewide Cost Allocation Plan to the Department of Administration from the Governor's Office.

The Statewide Cost Allocation Plan is used in determining a portion of the allowable indirect cost rate for state agencies participating in federal grant programs. Allowable indirect costs are those administrative expenses recognized by the federal government as essential in the conduct of the federally funded program.

The Statewide Cost Allocation Plan allocates the cost of various state centralized services functions to state agencies based on a service unit measurement or through direct billing procedures. Examples of the service unit allocation are the processing of accounting documents, purchase orders and payroll warrants. Allocation of the cost of these services is based on the number of units provided to an agency. Examples of direct billing are the motor pool and the rent charge for capital complex office space. These costs are actually billed to user agencies.

The rationale for Senate Bill 217 is two fold, cost reduction and efficiency. By transferring this function and others, the Office of Budget and Program Planning can eliminate one FTE as proposed in the Governor's Budget. The department of administration can absorb the function without increasing staff. In addition, most of the allocated centralized services functions in the statewide cost allocation plan are located in the Department of Administration. Because of this, a coordinated preparation process can be implemented within the Department of Administration.

This bill requested by the Public Employees' Retirement Division, is simply to provide the same date for normal service retirements for all systems listed in the title.

- Section 1 - PERS
- Section 2 - Highway Patrol Retirement System
- Section 3 - Sheriffs' Retirement System
- Section 4 - Game Wardens Retirement System
- Section 5 - Citation correction in Game Wardens
- Section 6 - Municipal Police Officers
- Section 7 - Unified Firefighters
- Section 8 - Repealer of 19-8-602 in the Game Wardens' System

Sections 1, 2, 3, 4, 6, and 7, simply create the consistent retirement date.

Section 5, corrects the citation of 19-8-602, which is repealed in section 8, to 19-8-603.

Section 8, repeals 19-8-602 because the early retirement provision is included in the provisions of 19-8-601 and is a redundancy that should have been removed in 1981 when 19-8-601 was amended - (clean-up).

The reason behind this bill is the fact that many employees have not timely filed their retirement applications. Without remedial action by the retirement board, some individuals would have lost as much as 6 months retirement benefits.

The retirement board does have the statutory authority to modify the retirement date when there is reasonable cause; however, the bill would eliminate the need for continuing board action on individual problems in this area.

Members filing late applications have had to wait an additional month for retro-active benefits until the Board could meet to approve the retroactive payments.

Normally, this does not happen when the head of an agency or political entity retires but rather when the staff personnel retires. Many PERS members in outlying areas are unaware they must file retirement applications immediately upon termination in order to receive immediate benefits; in a few instances they are even not aware that they must file an application. This bill will eliminate time-lags in processing retirement applications for many of the 800 public employees retiring each year.

Jan. 26, 1983

SENATE BILL 211 - FUNDING OF HIGHWAY PATROLMEN'S RETIREMENT SYSTEM - Fuller

This bill introduced at the request of the Public Employees' Retirement Board, provides required funding for the Highway Patrolmen's Retirement System.

It would increase the current 16.57% of salaries contributed by the employer by 3.78% of salaries for a total of 20.35% of salaries. The figures in the fiscal note are accurate projections of these costs.

This funding is needed to insure the financial stability of this system.

If this funding is not provided, the unfunded liability of this system will continue to grow. From July 1, 1980 to July 1, 1982, the unfunded liability grew over \$2 million dollars from \$8,179,000 to \$10,872,000.

This funding does not provide any new benefits it simply funds the benefits that are currently in place.

The inadequate funding is a result of the original planning of this system in 1945 when employer contributions were based on 15% of driver's license fees. While salaries increased and the number of patrolmen increased, the revenue from driver's licenses did not increase proportionately. What was 30% of salaries in 1945 decreased to less than 8% of salaries by 1972.

Some changes were made in the employer contributions in the past decade but there has continued to be an underfunding of past service.

If the inadequate funding continues, future taxpayers will be faced with ever-increasing liabilities until funding requirements are met.

*Larry Nachshin*  
*Administrator PERB*  
*Proponent*

EXHIBIT 7  
State Administration  
Jan. 26, 1983

HIGHWAY PATROL  
RETIREMENT SYSTEM

ACTUARIAL VALUATION

AS OF

JULY 1, 1982



1820 Eleventh Avenue • Helena, Montana 59601 • Telephone (406) 442-5222

October 7, 1982

Mr. Lawrence Nachtsheim, Administrator  
Public Employees Retirement Division  
1712 9th Avenue  
Helena, MT 59601

Re: Highway Patrol Retirement System

Dear Larry:

Enclosed is the July 1, 1982 actuarial report for the Highway Patrol Retirement System.

You will note that the recommended contribution rate requires an additional 3.78% of salary. We recommend that action be taken to meet this additional funding requirement.

Sincerely,

A handwritten signature in cursive script, reading "Alton P. Hendrickson".

Alton P. Hendrickson, ASA

1m1

Enclosure

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## SECTION I

### INTRODUCTION

An actuarial valuation of the Highway Patrol Retirement System of the State of Montana has been completed as of July 1, 1982. This valuation was authorized by the Public Employees' Retirement Board under Section 19-6-202, M.R.C. The purpose of the valuation was to determine the financial position of the fund, the normal cost, and the unfunded accrued liability based upon present and prospective assets and liabilities of the fund as of July 1, 1982.

Section II presents an analysis of the results of the actuarial valuation. The numerical findings supporting this analysis are shown in Section III.

In conducting the actuarial valuation, certain assumptions were made as to the future experience of the system. A summary and discussion of each of the assumptions is contained in Section IV.

The valuation was based upon the Highway Patrol Retirement Act and incorporates all amendments as of July 1, 1982. A summary of the major provisions of the Act is contained in Section V.

### ACTUARIAL CERTIFICATION

Based upon the assumptions stated in this report and the employee data and other records provided by the Public Employees' Retirement Division, the actuarial valuation contained in this report has been performed in accordance with generally accepted actuarial principles and techniques.

  
Alton P. Hendrickson  
Member, American Academy  
of Actuaries



## SECTION II

### ANALYSIS OF VALUATION

The actuarial valuation as of July 1, 1982 has determined that the percentage of each member's salary required to fund benefits as they accrue in the future is 18.19%. An additional percentage of 8.66% is required to amortize the unfunded past service liability over a period of 40 years. The total recommended contribution rate is 26.85%.

The recommended rate of 26.85% represents an increase of .71% over the 1980 rate of 26.14%. A large part of this increase was anticipated as a result of benefit increases to retired members. The state's contribution rate had been increased .57% to fund these benefits.

The number of active members declined from 211 in 1980 to 204 in 1982. Even with the reduction in membership, the total payroll increased 18.4% to \$4,107,863. The number of retired members increased significantly from 102 to 126. The total benefits paid increased 47.9% and the average monthly benefit increased 19.8%.

The regular contribution rate for funding the Highway Patrol's Retirement System is 23.07% of each active patrolman's salary. This rate is comprised of 16.57% from the state and 6½% from the member. This amount is 3.78% less than recommended and is not sufficient to amortize the unfunded liability in future years.

It is imperative that additional funding be provided to the Highway Patrol Retirement System. An increase of 3.78% is recommended.

SECTION III

SCHEDULE 1

NORMAL COST ALLOCATION

(1) Normal Cost Contribution Rate:	
(a) Retirement	16.076%
(b) Death	0.502
(c) Disability	0.890
(d) Vested	0.188
(e) Withdrawals	0.533
	-----
(f) Total Rate	18.189%
 (2) Present Value of Future Salaries Of Current Members	 \$25,636,502
 (3) Present Value of Future Normal Costs For Current Members (1(f) x (2))	 \$ 4,663,023

SCHEDULE 2

PRESENT VALUE OF BENEFITS

(1) Present Value of Benefits - Inactive Members

(a) Retirement	\$ 5,908,732
(b) Death	798,091
(c) Disability	359,781
(d) Withdrawals	3,504
	-----
(e) Total Inactive	\$ 7,070,108

(2) Present Value of Benefits - Active Members

(a) Retirement	\$15,790,434
(b) Death	304,442
(c) Disability	527,635
(d) Vested	149,968
(e) Withdrawals	252,548
	-----
(d) Total Active	\$17,025,027
	-----

(3) Total Liabilities \$24,095,135

SCHEDULE 3

CONTRIBUTION AND LIABILITY ALLOCATIONS

(1) Unfunded Accrued Liability

(a) Present Value of Benefits	\$ 24,095,135
(b) Present Value of Future Normal Costs	4,663,023
(c) Fund Assets	8,559,303 -----
(d) Unfunded Liability (a)-(b)-(c)	\$ 10,872,809

(2) Contribution Rates Amortized Over 40.00 Years

(a) Present Value of Salaries During Next 40.00 Years	\$125,472,782
(b) Unfunded Contribution Rate 1(d)/2(a)	8.665%
(c) Normal Cost Rate (Schedule 1)	18.189% -----
(d) Total Funding Rate	26.854%

SCHEDULE 4  
COMPARISON OF VALUATIONS

	<u>1980</u>	<u>1982</u>
Liability for Future Service	\$5,140,507	\$ 4,663,023
Unfunded Liability	\$8,179,255	\$10,872,809
Assets	\$6,568,125	\$ 8,559,303
Normal Cost Rate	18.37%	18.19%
Unfunded Liability Rate	7.77%	8.66%
Total Recommended Rate	26.14%	26.85%
Annual Payroll	\$3,468,570	\$4,107,863
Annual Benefit Payments	\$ 493,754	\$ 730,380
Number of Active Members	211	204
Number of Retired Members	102	126

SCHEDULE 5

TABLE 1

NUMBER OF ACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	AGE GROUP										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	1	14	10	5		1					31
5-9		1	26	19	3	2	1				52
10-14			1	23	35	1					60
15-19					15	10	6				31
20-24					1	8	6	3			18
25-29						2	3	5			10
30-34							1	1			2
35-39											
40-UP											
TOTAL	1	15	37	47	54	24	17	9			204

TABLE 2  
ANNUAL SALARIES OF ACTIVE MEMBERS  
IN THOUSANDS

COMPLETED YEARS OF SERVICE	AGE GROUP										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	15	218	164	84		34					515
5-9		19	502	379	61	41	15				1017
10-14			21	467	711	21					1220
15-19					312	220	132				664
20-24					22	184	135	68			409
25-29						43	76	116			235
30-34							22	26			48
35-39											
40-UP											
TOTAL	15	237	687	930	1106	543	380	210			4108

TABLE 3  
AVERAGE SALARIES OF ACTIVE MEMBERS

COMPLETED YEARS OF SERVICE	AGE GROUP										TOTAL
	UNDER 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	OVER 65	
0-4	15098	15606	16392	16837		33844					16630
5-9		18633	19325	19954	20215	20541	14810				19553
10-14			21123	20308	20317	20853					20336
15-19					20832	21994	21968				21427
20-24					21930	22942	22452	22552			22658
25-29						21630	25348	23168			23515
30-34							22198	26036			24117
35-39											
40-UP											
TOTAL	15098	15807	18581	19796	20484	22605	22328	23282			20137



TABLE 4  
SUMMARY OF RETIREES

NUMBER OF MEMBERS

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
36	12	13	7	20	7	0	1	96

TOTAL MONTHLY BENEFIT

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
20956	6384	7207	3223	8897	3230	0	323	50220

AVERAGE MONTHLY BENEFIT

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
582	532	554	460	445	461	0	323	523

TABLE 5  
SUMMARY OF DISABLED

NUMBER OF MEMBERS

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
4	0	0	0	0	1	1	0	6

TOTAL MONTHLY BENEFIT

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
1965	0	0	0	0	460	459	0	2884

AVERAGE MONTHLY BENEFIT

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
491	0	0	0	0	460	459	0	481

TABLE 6  
SUMMARY OF SURVIVORS

NUMBER OF MEMBERS

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
3	0	3	3	5	2	3	4	23

TOTAL MONTHLY BENEFIT

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
1131	0	939	1433	1727	637	787	1107	7761

AVERAGE MONTHLY BENEFIT

AGE GROUP

UNDER 55	55-59	60-64	65-69	70-74	75-79	80-84	OVER 84	TOTAL
377	0	313	478	345	318	262	277	337

## SECTION IV

### ACTUARIAL FUNDING METHOD AND ASSUMPTIONS

The true cost of the Highway Patrol Retirement System will be determined by its future experience. In determining the financial requirement of the fund, certain assumptions were made as to the expected future experience. This section summarizes the funding method applied as well as the basic assumptions used.

Any variations in the actual experience of the fund from those assumed in this valuation may cause changes in the projected future costs of the fund. It is therefore necessary that the actuarial assumptions be reviewed from time to time with adjustments as experience warrants. It is also important that regular valuations be performed to determine the financial effect of variations between the actual and assumed experience.

The assumptions shown below were based upon the past experience of the fund together with the projections as to future experience.

#### FUNDING METHOD

The method of funding employed is commonly referred to as the entry age normal cost method. This method establishes a normal cost of each fund as well as an unfunded accrued liability. The normal cost is the level percentage of total salaries required to fund the benefits, assuming this percentage has been contributed since each member's entry into the fund.

The unfunded accrued liability represents the excess of the present value of total liabilities over the present assets of the fund and the present value of expected future contributions for the normal cost.

In order to maintain the fund on an actuarially sound basis, the rate of contribution should be such as to meet the normal cost in addition to making progress towards the amortization of the unfunded liability.

## ACTUARIAL ASSUMPTIONS

### Mortality Rates

The mortality rates are based upon the 1971 Group Annuity Mortality Table.

<u>Age</u>	<u>Death Per 100,000</u>
25	62
30	81
35	112
40	163
45	292
50	529
55	852
60	1,312
65	2,126
70	3,611
75	5,529
80	8,743
85	13,010

### Disability Rates

The disability rates are based upon the rates published by the Railroad Retirement Board in its seventh valuation, modified to reflect the higher disability rate of the members.

<u>Age</u>	<u>Disabilities per 100,000 Active Members</u>
25	90
30	90
35	90
40	202
45	428
50	765
55	1,494
60	2,886

### Withdrawal Rates

The withdrawal rates illustrated below reflect the turnover experienced by the Highway Patrolmen's Retirement System.

<u>Age</u>	<u>Withdrawal Per 100,000 Active Members</u>
25	8,450
30	4,800
35	3,020
40	2,790
45	1,490
50	0
55	0

### Salary Scale

The salary increases are based upon projected experience of the system regarding longevity and meritorious increases, together with an underlying inflationary adjustment of 5½% representing projected cost-of-living increases.

<u>Age</u>	<u>Expected Salary at age 55 as a Multiple Of Current Salary</u>
25	7.07
30	5.23
35	3.86
40	2.80
45	1.99
50	1.41
55	1.00

### Investment Earnings

A rate of 7% per annum was assumed for future investment earnings.

## SECTION V

### SUMMARY OF BENEFITS AND CONTRIBUTIONS

Effective Date - July 1, 1945

Member Contributions - 6½% of salary

State Contributions - 16.57% of active highway patrolmen's salaries

Retirement Benefit - Minimum service: 20 years  
Minimum age: none  
Mandatory retirement: age 60

Normal form: Life annuity with a death benefit equal to the present value of the retirement allowance at the date of retirement less all retirement benefits paid to date (full cash refund annuity).

Benefit: 2% of the average monthly salary during the highest 36 consecutive months of earnings for each of the first 25 years of service, plus 1% per year of such average monthly salary for each additional year of service in excess of 25 years.

Disability Benefit - Service disability: 50% of the average monthly salary during the highest 36 consecutive months of earnings.

Non-service disability: Actuarial equivalent of the member's accrued retirement benefit.

Death Benefit - Service death: 50% of the average monthly salary during the highest 36 consecutive months of earnings less any amounts payable under the Workers' Compensation Act.

Non-service death: Actuarial equivalent of the member's accrued retirement benefit.

## SECTION V

(CONTINUED)

### Termination Benefit -

If service discontinued prior to completion of 10 years of service, return of accumulated contributions without interest. If service discontinued on or after completion of 10 years of service, either return of the aggregate of accumulated contributions with interest or the actuarial equivalent of the member's accrued retirement benefit.



# STANDING COMMITTEE REPORT

January 26

1913

MR. **PRESIDENT**

**STATE ADMINISTRATION**

We, your committee on.....

having had under consideration.....

**SENATE**

Bill No. **216**

Respectfully report as follows: That.....

**SENATE**

Bill No. **216**

DO PASS

# STANDING COMMITTEE REPORT

January 28

1903

**PRESIDENT**

We, your committee on

**STATE ADMINISTRATION**

having had under consideration

**SENATE**

Bill No. **217**

Respectfully report as follows: That

**SENATE**

**217**

Bill No.

DO PASS

*J.C.*