

**MINUTES OF THE MEETING
STATE ADMINISTRATION COMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES**

March 10, 1987

The meeting of the State Administration Committee was called to order by Chairman Sales on March 10, 1987 in Room 437 of the State Capitol at 9:00 a.m.

ROLL CALL: Rep. Moore was excused. All other committee members were present.

CONSIDERATION OF SENATE BILL NO. 136: Senator Mazurek, Senate District # 23 and sponsor of the bill, stated that the bill is an act providing that state employees whose hours are temporarily reduced as a result of a budget deficit must receive vacation, sick leave, and retirement credits as if the reduction had not occurred. The bill provides that full-time employees who take a temporary reduction in hours do not lose sick leave, vacation benefits, and retirement benefits.

This biennium, employees in the departments of Justice, Military Affairs, Agriculture, and the University System were either required or volunteered to take leave without pay in the interest of preserving jobs.

Because of the way retirement benefits are calculated, loss of benefits have a lifetime impact. Since retirement is generally figured on the last three years' wages, a 24-hour temporary reduction during that time span will cost the retiree \$4.50 a month for the rest of his life.

The suggested technical amendments change "state employees" to "public employees" in order to include all Public Employees' Retirement System (PERS) members and delete the Teachers' Retirement System (Exhibit # 1).

PROPOSERS: Tom Schneider, Montana Public Employees Association, submitted Exhibits # 2 and # 3 and stated that the Association requested the bill so that employees would not lose benefits because they gave up hours to save jobs. The bill provides that full-time employees who gave up hours of work on a one-time basis still get full benefits. The bill was amended in the Senate making employees responsible for informing the retirement system, furnishing information required by the retirement system, and making the retirement contribution. I presume the Board will require documentation as to the reduced hours, salary given up,

and a statement that the loss of hours is due to a budget deficit. The Board can also set up a contribution required of the employee so that no unfunded liability occurs. It is estimated that approximately 20 public employees will retire within the three-year period and lose benefits.

Since annual and sick leave began to be calculated on 2,080 hours to accommodate computer calculations, and the 15-day allowance for leave without pay was removed in 1983, benefits are calculated on a pro-rata basis; three days of leave without pay earns 14.8 days of vacation yearly rather than 15 days, and a similar reduction is made in sick leave benefits.

Eileen Robbins, Montana Nurses Association, stated that when health care facilities in the private sector reduce hours, nurses continue to accrue vacation and sick leave as though the work schedule were not reduced. The bill would allow publicly employed nurses to receive the same working conditions as their counterparts in the private sector.

Terry Minow, Montana Federation of Teachers and Montana Federation of State Employees, stated that the bill is a fair way to compensate people who have already reduced hours.

OPPONENTS: **Laurie Ekanger, Personnel Division, Department of Administration (DA)**, addressed sections 1 through 3 of the bill and submitted Exhibit # 4. The department supports the concept of the bill, which is to mitigate the impact on workers. Retaining annual and sick leave credits for persons on reduced work schedules was ruled out last spring by the department because it is administratively awkward and punitive to the agencies who have reduced hours. Agencies already doing a full-time job with less than full-time employees will have expanded workload. Manual calculations are required to readjust annual and sick leave on each payroll.

The bill has technical problems: 1) it is operative for any fiscal year when a budget deficit occurs, but "budget deficit" is not defined and could be interpreted to mean any revenue shortfall in any year; and 2) when it is difficult to administer a procedure, an agency is discouraged from using it as an alternative to layoff.

Linda King, Public Employees' Retirement Division (PERD), submitted Exhibit # 5 and stated that the bill proposes both full service and an artificial salary for certain public employees with no funding mechanism to pay for the increased retirement benefit, no additional staff and computer resources to administer the enhancement, and insufficient statutory direction:

- 1) certain retirement systems would be required to provide funding for the budgetary shortfalls of other government employers;
- 2) the "temporary reduction" definition could be interpreted to mean any member working eight hours on the last day of any fiscal year even if work days were reduced to three hours every other day of any fiscal year. For example, a city may elect to reduce PERS employees' hours to make up a budget deficit, saving employer contributions while retaining police and firefighters at full-time because PERS members would still accrue full retirement, vacation, and sick-leave benefits at no immediate cost to the city;
- 3) the proposal could increase the number of public employees affected by budget cut-backs;
- 4) PERS retirement system definitions (19-3-104) would need to be changed as "compensation" and "final compensation" used in the calculation of retirement benefits require employer and employee contributions of 6.41% and 6.0% on "compensation", respectively;
- 5) section 5 gives the PERD the authority to specify "full-time compensation" without specific legislative direction;
- 6) five sections of the PERS act and similar amendments would be needed for the highway patrol and game wardens' retirement systems in order to answer administrative questions;
- 7) the retirement division staff, reduced by 2.9 FTE and \$100,000, will have neither the personnel nor the computer resources to administer exceptions to retirement provisions;
- 8) the "artificial compensation" could create unfunded liabilities for the retirement systems if the contribution is not paid by the employee;

- 9) emerging demographic, social, economic, legislative, and regulatory trends show increasing retirement benefits to larger numbers of people for greater periods of time than originally anticipated in 1945 when the PERS was created. The baby-boomers will be drawing benefits during the time when the labor force may be at its lowest point this century; and
- 10) the Senate considered the bill in the rush of business immediately preceding the transmittal deadline, so it was transmitted without problems being solved. Many employers have no idea that amendments are being considered, or the fiscal impacts of those changes.

The PERD would like to propose an administrative rule change to provide a larger service credit to members of the retirement system whose hours have been reduced due to the budget deficit. The Board has been unable to draft proposed amendments or administrative rule changes to equitably deal with the problems created by this bill.

DISCUSSION OF SENATE BILL 136: Rep. Jenkins asked why retirement is calculated on the last three years of employment. Tom Schneider replied that benefits are calculated on the 36 months of highest consecutive wages, which normally occur in the last three years of employment. Rep. Jenkins asked if employees took a drop in pay, would all employees be affected by the bill. Tom Schneider replied that Senator Gage's bill to reduce all employees hours to 4 1/2 days a week would not be covered by this bill as it requires a temporary reduction and is limited to a fiscal year.

Rep. Peterson submitted a letter from the city of Missoula (Exhibit # 6) that states additional work would be required to keep track of sick leave and vacation time and asked Mr. Schneider to comment. Tom Schneider replied that every entity currently has provisions for leave without pay.

Sen. Mazurek closed discussion on Senate Bill No. 136 by stating that the bill was not heard under the press of business before the transmittal date. It was heard in the Business and Labor Committee on February 12, and debated on the floor on the 20th, five days before transmittal. The bill attempts to give the PERD ample authority to set up any necessary requirements for implementation. Sen. Mazurek urged the committee to give serious consideration to the bill.

CONSIDERATION OF SENATE BILL NO. 197: Senator Rasumssen, Senate District # 22 and sponsor of the bill, stated that the bill requires that at least one retired state employee be appointed to the State Employee Group Benefits Advisory Council. Amended language is shown on lines 19 through 21.

PROPOSERS: Leo Barry, Association of Montana Retired Public Employees, stated that 1,500 retired employees are currently on the state health insurance plan and the Association would like to be represented on the advisory council to provide the retirees' perspective relative to coverage, carrier, deductibles, etc. In an attempt to accommodate Association concerns, the DA created an ex-officio position, but this bill would give the Association a vote. The bill has no fiscal impact as the Association's participation is strictly voluntary.

OPPOSERS: None.

DISCUSSION OF SENATE BILL NO. 197: Sen. Rasumssen closed discussion on Senate Bill 197 by stating that the retirees are entitled to continue on the health plan as long as they pay the insurance premiums, and it's fair to give them a voice on the advisory council.

CONSIDERATION OF SENATE BILL NO. 230: Senator Himsl, Senate District #3 and sponsor of the bill, stated that the bill is an act providing a formula for allocating Montana's unified volume cap for bonds among the governmental units in the state having authority to issue such bonds and establishing a fee to fund a portion of the comprehensive annual financial report audit. The bill would provide a new formula for allocating Montana's unified volume cap for bonds among governmental units and place in statute what now exists under the Governor's executive order.

When Congress passed the Tax Reform Act of 1986, it established new tests for tax-exempt interest on state and local government bonds, replacing the present law concept of industrial development bonds (IDB's) with more restrictive private activity bonds. For the balance of 1986 and 1987, the annual volume ceiling for Montana will be \$250 million, and \$150 million after 1987. The bill reserves 70% of the volume for state agencies (\$105 million), and 30% for local governments (\$45 million). Any

unused portion of the allowance remaining after the first Monday of September of any calendar year becomes a "pool" to be allocated on a first-come basis.

Sen. Hims1 reviewed portions of the bill:

- 1) section 5 provides that no more than \$20 million of the local portion can be allocated to a single project;
- 2) sections 4 (2) and 13 were amended in the Senate to provide that upon issuance of bonds, each state issuer shall pay 30 cents per thousand dollars of bonds to the state general fund for the purpose of funding a portion of the comprehensive annual financial report audit;
- 3) page 4 stipulates that allocations can be made only on the agency's respective set-asides; and
- 4) section 7 states that if money has not been used, a carryover provision is allowed by following specific guidelines.

PROPONENTS: Marvin Eicholtz, DA, stated the bill was drafted in cooperation with affected state and local governments. Implementation of the bill will allow state and local issuers of qualified private activity bonds to receive an allocation based upon the needs of both state and local governments.

David Hunter, Office of Budget and Program Planning, stated that the Senate amendments simply include language stated in the appropriation bill. Removing the amendments would remove general fund revenue, as the bill provides some general fund revenue not otherwise available.

In 1985, the legislature provided that the Office of Budget and Program Planning (OBPP) collect money from issuers of debt to pay the Office of the Legislative Auditor (OLA) for approximately half of the statewide financial audit. The audit is used by bond rating agencies to evaluate the credit worthiness of agencies who issue bonds in the state. The statewide audit impacts ratings and interest rates for those agencies who issue bonds.

The 30 cent figure was arbitrarily arrived by averaging the last five years of data, to arrive at a figure to cover half the cost of the audit.

OPPONENTS: Bob Pancich, Montana Economic Development Board (MEDB), stated that the 30 cent per thousand dollar charge is not acceptable. The Board issues bonds under its Pooled Industrial Development Bond program for financing small business needs, and under its Municipal Finance Consolidation program to finance needs of cities, counties, and school districts. The Board does not use the statewide audit as part of its official statement in marketing bonds, and it is unfair to be charged a fee for this purpose.

The state financial advisor, Evensen Doge, provided a solution to the OBPP on March 18, 1986 by ranking state agencies by benefits derived (Exhibit # 7). The Legislative Auditor's report reflects category cost per thousand dollars of bonds. "A" issuers pay 82.3 cents per thousand dollars in bonds; "B" issuers, 29.1 cents; "C" issuers, 20.8 cents; and "D" issuers, 4.2 cents. At the proposed 30 cents per thousand dollar charge, "D" issuers, including the MEDB, are charged a 714% increase, and "A" issuers will pay \$35,000 less. "A" issuers utilize the statewide audit in order to obtain a rating for bonds; "D" issuers do not. In addition, no inherent relationship exists between the benefit received and the amount of bonds issued. MEDB urges the committee to amend Senate Bill No. 230 to assess the cost of the audit against the agencies using the audit.

Mr. Pancich submitted a copy of the 1985 legislative intent for HB 500 for the committee's review (Exhibit #8).

Mary Munger, Montana Health Care Facility, stated that the Board issues bonds to loan money to non-profit health care facilities for the purpose of containing health care costs, and the cost of the bonds is passed on in the loan. The Board pays for an audit that provides no benefits, and also pays for a percentage of the Department of Commerce audit. The additional charge is not fair.

DISCUSSION OF SENATE BILL NO. 230: Rep. Pistoria asked Mr. Pancich what amendments he suggests. Mr. Pancich suggested:

- 1) deleting the amendment in section 4 (2) (p. 3, l. 21-25);
- 2) amending section 13 by adding the words "using the comprehensive annual financial report audit" following the word "issuer" (p. 9, l. 11); and
- 3) changing the words "30 cents per thousand of bonds" to "\$1 per bond" (p. 9, l. 12).

Rep. Jenkins asked if MEDB bonds are audited annually. Bob Pancich stated that MEDB is annually audited by the OLA, for a biennium line-item cost of \$7,200, and by bank examiners for industrial development bonds. A percentage share of the Department of Commerce audit is also line-itemed for \$1,235. Chairman Sales asked if the statewide audit would be an additional charge of \$7,800. Bob Pancich replied that is correct.

Chairman Sales asked if the 30 cent figure is just. David Hunter replied it is arbitrary, but just. Mr. Pancich says this figure is unfair, but that it is fair for the legislature to give MEDB \$180,000 in general fund loans for the '87-'89 fiscal year. Mr. Pancich's proposed amendment would triple other agency costs such as highways, university system, natural resources, etc. While bonds might not be backed as a general obligation, state agencies are able to issue bonds because of legislative authority. Chairman Sales asked what the \$26 million allocated for student assistance loans were. David Hunter replied that State through the Montana Higher Education Students Assistance Corporation purchases student loans on the secondary money market and helps underwrite the cost of student loans.

Sen. Himsel closed discussion on Senate Bill No. 230 by stating that the audit has to be paid for, either by the agencies using the loans, or the general fund.

CONSIDERATION OF SENATE BILL NO. 240: Senator Walker, Senate District # 20 and sponsor of the bill, stated that the bill was before this committee last session in the form of the Governor's pick-up tax bill, which allows retirement payments to be made before withholding taxes. The purpose of the bill is to allow firefighters the opportunity to be included in the legislation since the federal tax law changes made this option beneficial.

PROPOSERS: Linda King, DA, stated that the firefighters were included in the 1985 employer pick-up bill, opted out because of tax reasons, and would like the opportunity to take advantage of the tax deferral of their contributions because of the recent tax law changes.

Ed Flies, Montana State Firemens' Association, supported the bill.

State Administration Committee
March 10, 1987
Page - 9 -

OPPONENTS: None.

CONSIDERATION OF SENATE BILL NO. 240: Sen. Walker closed discussion on Senate Bill No. 240.

DISPOSITION OF SENATE BILL NO. 240: Rep. Peterson moved the bill BE CONCURRED IN, seconded by Rep. Cody. The motion passed unanimously (17-0). Rep. O'Connell will carry the bill.

DISPOSITION OF SENATE BILL NO. 197: Rep. Peterson moved the bill BE CONCURRED IN, seconded by Rep. Phillips. The motion passed unanimously (17-0). Rep. Jenkins will carry the bill.

DISPOSITION OF SENATE BILL NO. 230: Rep. Cody moved the bill be NOT CONCURRED IN, seconded by Rep. Hayne. Rep. Jenkins explained that the amendment was put on in the Senate committee to alleviate general fund costs.

In response to questions from the committee, Bob Pancich stated that Ellen Feaver pointed out in the special session that the charge based on bond sales is risky because of bond market volatility.

He called the committee's attention to a letter written by Bob Ringwood, Legislative Auditor, dated April 1, 1985 which reads (Exhibit # 7):

Although both general obligation bonds and revenue bonds benefit from statewide audit, the general obligation bonds receive a more direct and substantial benefit. We have researched this request in detail and it is our position that the state's General Fund is the proper source for funding the costs of the statewide audit. In searching for a way to reasonably allocate the cost of a statewide audit, we contacted eight other states which perform similar audits. In each case, these states indicated they pay for their audits from their general fund. This fact supports the conclusion we have reached, that maintenance of the state's position in the credit markets is a legitimate general fund cost.

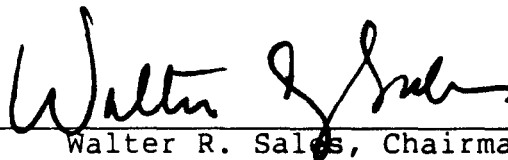
State Administration Committee
March 10, 1987
Page - 10 -

Marvin Eicholtz also replied to committee questions by stating that the bill addresses allocation of bonding authority for agencies issuing private activity bonds. Since highway department bonds are not private activity bonds, it is not covered under the bill. The Department of Highways can also apply for a carryforward of unused funds.

Rep. Whalen made a substitute motion that the bill BE CONCURRED IN, seconded by Rep. Jenkins. The motion passed (14-4) with Reps. Cody, Campbell, O'Connell, and Pistoria voting no. Chairman Sales will carry the bill.

Senate Bill No. 136: Chairman Sales appointed a subcommittee consisting of Rep. Phillips, chair, and Reps. Cody and Peterson to draft amendments to Senate Bill No. 136.

ADJOURNMENT: There being no further business to come before the committee, the meeting adjourned at 11:10 a.m.

A handwritten signature in cursive script, reading "Walter R. Sales", is written over a horizontal line.

Walter R. Sales, Chairman

DAILY ROLL CALL

State Administration

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 3-10-87

NAME	PRESENT	ABSENT	EXCUSED
Walt Sales	✓		
John Phillips	✓		
Bud Campbell	✓		
Dorothy Cody	✓		
Duane Compton	✓		
Gene DeMars	✓		
Harry Fritz	✓		
Harriet Hayne	✓		
Gay Holliday	✓		
Loren Jenkins	✓		
Janet Moore		✓	
Richard Nelson	✓		
Helen O'Connell	✓		
Mary Lou Peterson	✓		
Paul Pistoria	✓		
Rande Roth	✓		
Tonia Stratford	✓		
Timothy Whalen	✓		

STANDING COMMITTEE REPORT

March 10

19⁸⁷

Mr. Speaker: We, the committee on STATE ADMINISTRATION

report SB 240

☐ do pass
☐ do not pass

☒ be concurred in
☐ be not concurred in

☐ as amended
☐ statement of intent attached

Walter R. Sales

Chairman

REQUIRE EMPLOYER TO PICK UP MEMBERS' CONTRIBUTION UNDER FIREFIGHTERS' SYSTEM

REP. O'CONNELL WILL CARRY THE BILL

third reading copy (blue)
color

STANDING COMMITTEE REPORT

March 10

19 87

Mr. Speaker: We, the committee on STATE ADMINISTRATION

report SB 197

☐ do pass
☐ do not pass

☒ be concurred in
☐ be not concurred in

☐ as amended
☐ statement of intent attached

Walter R. Sales

Chairman

APPOINT RETIRED TO STATE EMPLOYEE GROUP BENEFITS ADVISORY COUNCIL

REP. JENKINS WILL CARRY THE BILL

third

blue

reading copy ()

color

STANDING COMMITTEE REPORT

March 10

19³⁷

Mr. Speaker: We, the committee on STATE ADMINISTRATION

report SB 230

☐ do pass
☐ do not pass

☒ be concurred in
☐ be not concurred in

☐ as amended
☐ statement of intent attached

Walter R. Sales

Chairman

PROVIDING FOR A BOLD ALLOCATION ACT

MR. SALES WILL CARRY THE BILL

third

blue

reading copy ()
color

PROPOSED AMENDMENTS TO SENATE BILL NO. 136 (THIRD READING--BLUE):

1. Title, line 9.

Strike: "STATE"

Insert: "PUBLIC"

2. Page 2, line 19.

Strike: "A STATE"

Insert: "An"

3. Page 3, line 21.

Strike: "A STATE"

Insert: "an"

4. Page 6, line 14.

Strike: "A STATE"

Insert: "an"

5. Page 7, line 10.

Strike: "A STATE"

Insert: "an"

6. Page 8, line 3.

Strike: "4,"

7. Page 8, line 4.

Strike: "4,"

8. Page 8, lines 8 and 9.

Strike: "OF" on line 8 through "AGENCIES" on line 9

Insert: "as defined in 2-18-601"

9. Page 8, lines 11 and 12.

Strike: "of" on line 11 through "agencies" on line 12

amdsbl136.wp

#1

3-10-87

= SB 136

SENATE BILL 136

A few quick comments about the amendment and opposition of SB 136.

1. The bill originally included state and local government because we didn't feel that we could grant benefits to some members of the PERD and not others. Some how, either through a mistatement or a misunderstanding we thought that the administration wanted the bill limited to state employees. Following receipt of a letter from Mr. Nachtsheim pointing out that we could not carve out state employees we now ask that you amend it back to its original form.
2. We know that it will take some time to complete the paper work in the payroll offices, but remember we are dealing with employees who gave up salary to help out the state in a time of need. I think the extra effort will be worth it in employee satisfaction and productivity.
3. There should be no cost problem during the time of financial crisis, as stated, because all of the employees who took time off were not replaced. When and if the time is granted back they will either use it in the future or receive a pay out some time down the road. The few who left at this point will cost very little. Remember there would have been no advantage to having an employee take time off if the employee would have had to be replaced.
4. It just is fair that a certain few employees who tried to help out the state's budget needs should pay the price for the rest of their lives. SB 136 is a bill for humanity.

EXHIBIT # 2
DATE 3-10-87
— SB 136



THOMAS E. SCHNEIDER — EXECUTIVE DIRECTOR
PHONE (406) 442-4600
P. O. BOX 5600
HELENA, MONTANA 59601

EXHIBIT # 3
DATE 3-10-87
SB 136

SB 136 is a priority bill passed by the members of the Montana Public Employees Association at its convention. We are asking you to support the people who sacrificed salary for the budget deficit and vote "YES" on SB 136.

SENATE BILL 136

Senate Bill 136 provides that full time employees who have had a temporary reduction of hours imposed upon them will continue to receive vacation and sick leave credits as though they had worked the time. In addition, it provides that an employee who retires and has had a salary reduction as a result of the reduction in hours, shall have retirement benefits calculated as though there was not a reduction in salary.

Because of the budget deficit this past year, many employees have had hours reduced rather than have fellow employees laid off. In the Department of Justice all employees were required to take three days off without pay; the Department of Administration required some employees to take as much as 58 hours; the University System, Department of Agriculture and others did the same.

The main complaint from the employees was not the loss of pay, but the loss of benefits. This bill would correct that and improve employee morale and productivity at a time that talk of a pay freeze is having a devastating effect.

PRIOR to 1983, the provisions on vacation and sick leave would have not been necessary as the law protected employees who took less than 15 working days of leave without pay. The legislature, however, repealed that language in 1983 and now the benefits are reduced based on the hours reduced.

The retirement section is even more serious as it will apply to the benefit a retiree receives for the rest of their lives. Because retirement benefits are based on three years of salary, only those employees who retire within three years of an hour reduction will be penalized by having to take hours off. This section will only effect those who retire.

We have a chance here to lessen the burden on those who helped us out in time of need and I think we owe it to them to lessen the blow they have suffered.

COST AND EFFECT (Based on the current PERD Valuation)

1/2080 = .00048

Average salary PERD member = \$ 17,146 per year or \$ 65.92 per day

Sick Leave: 12 days per year

Vacation: 15 days per year

* * * * *

		<u>Sick Leave</u>	<u>Vacation</u>
<u>24 Hr. Reduction</u>			
Normal	(days)	12.00000	15.00000
Reduced	(days)	.13846	.17307
After reduction		11.86154	14.82793
<u>Value</u>		\$ 65.92 x 12 = \$ 791.04	\$ 65.92 x 15 = \$ 988.80
		\$ 65.92 x 11.86154 = \$ 781.91	\$ 65.92 x 14.8279 = \$ 977.46
Loss		\$ 9.13	\$ 11.34

Payout cost: 25% of \$ 9.13 = \$ 2.28 + \$ 11.34 = \$ 13.62 Annually

- - - - -

58 Hr. Reduction

Normal	(days)	12.00000	15.00000
Reduced	(days)	.33456	.41820
After reduction		11.66544	14.58180
<u>Value</u>		\$ 65.92 x 12 = \$ 791.04	\$ 65.92 x 15 = \$ 988.80
		\$ 65.92 x 11.66544 = \$ 768.99	\$ 65.92 x 14.5818 = \$ 961.23
Loss		\$ 23.05	\$ 27.57

Payout cost: 25% of \$ 23.05 = \$ 5.76 + \$ 27.57 = \$ 33.33 Annually

While these examples show that the dollar effect of these benefits are small, the mental effect on the employees is great. For these very small costs, we can reward employee and improve morale and productivity at a time that we cannot grant salary increases. Remember, only a small number of employees paid the price of having to take time off without pay.

COST AND EFFECT (Based on current PERD Valuation)

24 hour reduction

\$ 28,128 divided by 12 = \$ 2344 per month or \$ 108.18 per day

33 mo. x \$ 2344 = \$ 77,352

3 mo. x \$ 2235.82 = \$ 6,707.46 (\$ 2344 less one day = \$ 2235.82) (3 months)

Average salary = \$ 84,059.46 divided by 36 = \$ 2334.99

\$ 2344.00 x 50% = \$ 1172.00 per month benefit

\$ 2334.99 x 50% = \$ 1167.50 per month benefit

LOST BENEFIT \$ 4.50 per month for the remainder of the retirees
lifetime.

56 hour reduction

29 mo. x \$ 2344.00 = \$ 67,976.00

7 mo. x \$ 2235.82 = \$ 15,650.00 (\$ 2344 less one day = \$ 2235.82) (7 months)

Average salary = \$ 83,626.00 divided by 36 = \$ 2322.94

\$ 2344.00 x 50% = \$ 1172.00 per month benefit

\$ 2322.94 x 50% = \$ 1161.47 per month benefit

LOST BENEFIT \$ 10.53 per month for the remainder of the retirees
lifetime.

ASSUMING 53 persons who retired took a reduction in hours with an average loss of \$ 7.50 per month, the total cost to the PERD system would be \$ 4,770.00 per year. This when compared to the annual benefits paid out of \$ 36,482,138 would be microscopic to the system but, certainly, not to the employee.

This is not the only benefit of this type. Currently, employees of the school systems and university system receive a full years credit for 10 months of work. Even the legislators receive full years credit and full salary consideration for the time and pay received during the session.

It seems only fair that with a few people being penalized for the rest of their retirement live that some method of removing that penalty is in order.

Department of Administration
Testimony in opposition to SB 136

I. Administrative Impact:

- A. Significant changes will have to be made in payroll and record keeping procedures.
 - 1. Benefits are currently calculated on an hourly basis for all employees.
 - 2. Agencies will have to track the number of reduced hours and accrue additional benefits.
 - 3. Separate payroll records will have to be maintained to distinguish affected employees from other part-time employees.

II. SB 136 has only minor impact on an individual employee.

- A. Reduced work hours is a temporary measure to accommodate recent across the board cuts.
 - 1. Further cuts will more likely be made through permanent reductions in force.
- B. Service credit for determining longevity and the rate vacation is earned is not reduced by LWOP.
- C. A part-time employee earns annual leave and sick leave at the same hourly rate as a full-time employee.
- D. A full-time employee with less than 10 years of state service, if required to take one day of leave with out pay, would currently lose:
 - 1. 28 minutes of annual leave (\$4.40).
 - 2. 22 minutes of sick leave (\$3.49).(At \$9.48/hr, Average salary.)

III. Costs:

- A. Additional benefits do have some cost. While the cost of this bill may not be large, it will impact those agencies which can least afford it; agencies who have already had to resort to reducing work hours.
- C. To pay for the additional benefits required by SB 136, the agency would have to increase the hours of LWOP required.

For more information call Laurie Ekanger or Mark Cress (444-3871).

5
3-10-87
SB 136

TESTIMONY ON SB 136

Linda King, Assistant Administrator
Public Employees' Retirement Division

The Public Employees' Retirement Board recognizes many of the problems caused by current budget shortfalls and appreciates the efforts of Senator Mazurek and others in trying to alleviate some of the problems which may affect a portion of the state's public employees.

However, SB 136 suggests an apparently simple solution without providing means for implementation. The bill proposes to provide both full service and an artificial salary for certain public employees, with no funding mechanism to pay for the retirement benefit increases created by artificial salaries, no additional staff and computer resources with which to administer this enhancement, and insufficient statutory direction.

Could increase salary reductions for some employees. This proposal would, in essence, require certain retirement systems to provide funding for the budgetary shortfalls of other government employers. Since the definition of "temporary reduction" is so general, it could well be interpreted to mean that any member working 8 hours on the last day of any fiscal year would be eligible for full benefits even if his work days were reduced to 3 hours for every other day of any fiscal year. So, for example, a city may elect to make up their budget deficit by reducing the hours of their PERS employees, saving employer contributions to PERS, Social Security, and other employee benefits, while retaining police and firefighters at full-time, because PERS members would still accrue full retirement, vacation and sick-leave benefits at no immediate cost to the city. This proposal could work to actually increase the number of public employees affected by budget cut-backs, rather than provide equity to those individuals.

Montana's public retirement systems should not be designated by the Legislature as "reserve funds" to be used at the discretion of individual agencies.

Proposed legislation is vague and incomplete. Besides the vague definition of "temporary reduction" in this bill, there are other problems. "Compensation" and "final compensation" used in the calculation of retirement benefits is defined in the retirement system statutes (19-3-104, MCA for PERS). PERS statutes require employer and employee contributions of 6.417% and 6.0% of "compensation," respectively.

Section 5 of SB 136 gives the Public Employees' Retirement Board the authority to specify "full time compensation" without much specific legislative direction. Shall the Board simply give every effected employee an artificial salary? Shall they include overtime if the employee had two or three years of service with overtime, previously? May the Board require employer and employee contributions on the "artificial" compensation? If so, will these contributions be paid by the employer or by the employee, or both? What is the Board's or the employee's recourse if the Board determines that the member's employment was not part of a temporary reduction, but permanent?

It would require significant revisions to at least five major sections which form the backbone of the PERS act in order for the Legislature to specify the answers to the above questions. Similar amendments would also be necessary for the Highway Patrol and Game Wardens' Retirement Systems.

Colin Pitt

2.95

Staff and operations budget insufficient to implement this proposal. The retirement division's staff has been reduced by 2.5 FTE and its funding reduced by \$100,000 from 1986 levels during this legislative session. This division will have neither the personnel nor the computer resources to administer retirement provisions that will operate outside its normal operations on a totally exceptional basis, as this bill would require.

Funding. If this committee determines that neither employer nor employee contributions will be made on the "artificial compensation" created by this bill, the unfunded liabilities of the retirement systems will be increased by this proposal. The corresponding costs will have to be paid by future employer contributions to the retirement systems.

Emerging demographic, social, economic, legislative, and regulatory trends show us increasing retirement benefits to larger numbers of people over greater periods of time than originally anticipated at the creation of the PERS in 1945. The baby boomers will be drawing benefits during a time when the labor force may be at its lowest this century and at a time when raising taxes to pay for benefits will meet increasing opposition. It is shortsighted, at best, to continue to grant benefit enhancements on a piecemeal basis when experts in the retirement field advise retirement plan administrators to review the entire benefit package to determine whether it satisfies the employees' needs at a cost the taxpayers are willing to pay.

The Montana Senate considered this proposal in the rush of business immediately preceding the transmittal deadline; it is possible the real impacts of this proposal became lost in that rush. Amendments were discussed, yet the bill was transmitted to the House with the same problems it contained in the Senate. You have several amendments before you today which will impact many local government employers. Many of those employers have no idea that any amendments are being considered nor any idea of the fiscal impacts of these changes.

The Public Employees' Retirement Board asks that this committee not concur on SB 136 because there are no simple solutions to these problems. In fact, the solutions proposed here may cause significant problems. Therefore, the Board requests that the retirement systems be amended from this bill and the Board be permitted to propose an administrative rule change which would provide a larger service credit to members of the retirement systems whose hours have been reduced due to the budget deficit. Neither the Board nor the Retirement Division Staff has been able to draft a proposed amendment to this bill nor a proposed administrative rule which would equitably deal with the problems created by the establishment of "artificial" salaries or compensation.



PERSONNEL OFFICE

201 W. SPRUCE • MISSOULA, MT 59802-4297 • (406) 721-4700

March 9, 1987

6
3-10-87
— 5B 136

Senator Joe Mazurek

Representative Walter Sales, Chairman
House State Administration Committee
Montana State House of Representatives
Capitol Building
Helena, MT 59601

RE: OPPOSITION TO SENATE BILL # 136

Dear Representatives:

This letter is written in opposition to the passage of Senate Bill #136. This particular bill would provide that State employees, whose hours are reduced as a result of a budget deficit, must receive vacation, sick leave and retirement credits as if the reduction had not occurred.

The City of Missoula is opposed to this particular bill because it would create inequities in the sick and vacation leave benefits and retirement credits received by full-time employees whose hours would be reduced to less than 40 hours per week, as compared to 3/4 time and half-time employees who would still receive benefits equivalent to the number of hours they work per week. In addition, many professional and administrative employees who are employed by the City of Missoula regularly work more than 40 hours per week and are not compensated for the additional hours they work. As a result of this situation, it would be inequitable to professional and administrative employees if other employees, who work less than 40 hours, receive the same vacation and sick leave benefits and retirement credits as they do.

In addition, the City would incur additional costs if this bill was approved. For example, an employee who normally works 40 hours per week and whose hours are reduced to 20 hours per week, would still accrue sick and vacation leave benefits at the same rate as a full-time employee which is accrued at 10 hours of vacation and 8 hours of sick leave per month. Normally an employee who works 20 hours per week only accrues 5 hours of vacation time per month and 4 hours of sick leave per month. If this particular employee earned \$10.00 per hour the additional costs to the City would be approximately \$1,080 per year for additional sick and vacation leave benefits. These costs could greatly increase if a number of employees had their hours reduced and still received the same level of sick and vacation leave benefits as if they were working full-time.

Your consideration of the City's position on this bill is greatly appreciated. The City will be watching closely the committee's proceedings on Senate Bill #136.

Respectfully submitted,



Kathi Mitchell

Personnel/EEO Officer

cc Representative Ralon Eudaily
Representative Harry Fritz
Representative R. Budd Gould
Representative Stella Jean Hansen
Representative Mike Kadas
Representative Earl C. Lory
Representative Janet Moore
Representative Bob Ream
Representative Carolyn Souires

TESTIMONY - SB 230

7

3-10-87

- SB 230

Mr. Chairman and Members of the Committee:

My name is Bob Pancich, I am the Administrator of the Montana Economic Development Board. I am here at the direction of my Board to testify on SB230.

When SB230 was presented for testimony at the Senate State Administration Committee hearing on January 30, 1987, we were not in a position to respond to the two amendments offered by Dave Hunter in his testimony. The Montana Economic Development Board is not opposed to the unified volume cap allocation in this bill. However, the amendments requiring state issuers of bonds to pay 30 cents per thousand of bonds issued is not acceptable.

The reasons for our position are primarily a matter of equity in allocating costs for statewide audit. Our Board issues bonds under its Pooled Industrial Development Bond Program for the purpose of financing small business needs. So far, 18 small business borrowers have been able to access our program for a total of \$8.5 million. The Board does not use the statewide audit as part of the Official Statement in marketing these bonds. Therefore, it is unfair to ask the Board to pay a fee for this unused statewide audit.

Our Board also issues bonds for financing needs of cities, counties, and school districts under its Municipal Finance Consolidation Program. Again, the Board does not use or publish the statewide audit as part of the Official Statement in marketing these bonds. Why should the cities, counties and school districts be required to pay an audit that does not benefit them?

The Office of the Legislative Auditor and the Office of Budget and Program Planning would argue that all state agencies derive some benefit from the statewide audit. This debate has been ongoing for the past 1-1/2 years. The state financial advisor, Evensen Dodge, Inc., provided a possible solution to the Budget Office in its letter of March 18, 1986. In their letter they rank the state agencies in the order

G. H. B. T.

of benefit derived and suggest a manner in which to bill each agency. A copy of that letter is attached to this testimony. The Legislative Auditor prepared a schedule of bonds issued over the past 10 years and then calculated a 5 year average of bonds issued by the categories suggested by Evensen Dodge. A copy of these calculations are also attached and I call your attention to page 2. Notice the last column on the right entitled "Category Cost per Thousand". Under this concept the Category A bond issuers would pay 83.2 cents per thousand issued and the Category D issuers would pay 4.2 cents per thousand issued. The MEDB is primarily a Category D issuer of bonds. We do, however, issue bonds in Category B for small business needs.

SB230 proposed that 30 cents per thousand issued be charged to all categories of issuers! We do not believe this amendment is fair and equitable because the proposed fee is a 714% increase over the Legislative Auditor's calculation for Category D bond issuers. This means an increase from \$6,760 to \$48,736 for Category D issuers and a decrease from \$55,511 to \$20,009 for Category A issuers. Remember that Category A issuers receive the largest benefit from the statewide audit and need this audit to obtain a rating on their bonds.

It is the MEDB's position that any levy based on the amount of bonds an agency issues overlooks the fact that there is no inherent relationship between an agency's "benefit" and the amount of bonds it issues, precisely because the amount of bonds issued can vary so dramatically. We urge that you amend SB230 to assess the cost of the Comprehensive Annual Financial Report Audit against those agencies requiring this audit to obtain a rating on its bonds (most of these agencies are in Category A).

EVENSEN DODGE, INC.

FINANCIAL CONSULTANTS

March 18, 1986

RECEIVED

MAR 20 1986

Mr. David L. Hunter
Budget Director
Office of the Governor
State Capitol
Helena, Montana 59620

Montana Economic
Development Board

Dear Dave:

During our meeting in Helena on January 16, 1986, we discussed the allocation of Legislative Auditor costs pursuant to certain statutory requirements. The purpose of our meeting was to review and discuss the method of allocating certain Legislative Auditor costs in light of the benefits received by state agencies which issue bonds. Our meeting was also attended by representatives from the three debt issuing agencies attached to the Department of Commerce and their respective bond counsel.

The purpose of this letter is to present a substitute analysis of the allocation benefits received by state agencies from the presence of the Legislative Auditor's opinion letter which accompanies the State's general purpose financial statements.

State Law

HB500 appropriates \$73,750 in each year of the biennium ending June 30, 1987 "... from nongeneral fund sources which the office of budget and program planning shall distribute, for the sole purpose of paying the Legislative Auditor's charges for the statewide audit, to those agencies who derive a benefit from the statewide audit".

Based upon our discussions with you, the intent of this law is that "nongeneral fund sources" include proceeds of bonds issued by state agencies for which the debt service is paid from sources other than the general fund of the State.

On June 6, 1985, you asked that we advise you of our opinion regarding the benefits deriving from the state audit and financial statement. In July, 1985, we sent you a letter which suggested a method by which to allocate the costs and defined certain agencies which directly benefit and those which indirectly benefit from the statewide audit and financial statements. We suggested that the direct versus indirectly benefited agencies should be allocated the Legislative Auditor costs on approximately a 2 to 1 basis.

Alternative Allocation Approach

Several agencies have informally contested the "2 to 1" allocation indicating that certain agencies derive no benefit from the statewide audit. On January 16, 1986, we discussed the subject of benefits of the statewide audit and financial statements with your office, representatives from the Board of Housing, the Economic Development Board, and the Health Facility Authority.

As a result of this meeting, we recommend your consideration of the following regarding the benefits of the statewide audit and financial statements:

1. Virtually all state agencies whether or not the agencies issue debt derive some benefit from the statewide audit and financial statements. Benefits from the audit vary with the agency's activities and mission, however.
2. Category A: Agencies which issue debt which is accompanied with an Official Statement containing the State's general purpose financial statements and Legislative Auditor's opinion derive the highest and most direct benefits.
3. Category B: Agencies which issue debt which is secured, in part, by a deficiency reserve makeup clause (moral obligation bonds) derive the next highest level of benefits.
4. Category C: Agencies which issue debt and are not included in the above categories but which rely upon state appropriations for program support are the next level of beneficiaries.
5. Category D: Agencies which issue debt and are not included in the above categories issue debt which is considered to be "independent" agency debt or "conduit" financing. These agencies benefit indirectly from the Legislative Auditor's opinion on the State's general purpose financial statements. This level of benefit is similar to that of non-debt issuing State agencies.

Using the above general policy as a guide, a relative level of benefit is approximately as follows:

<u>Category</u>	<u>Relative Level of Benefit</u>
A	100%
B	35%
C	25%
D	5%

Page 3

Category A includes general obligation debt payable from non-general fund sources, highway revenue bonds, and coal severance tax bonds.

Category B includes the moral obligation bonds issued by the Economic Development Board.

Category C includes the bonds issued by the Board of Regents.

Category D includes the bonds issued by the Economic Development Board (other than moral obligation), the Health Facility Authority, the Board of Housing, and the Agricultural Loan Authority.

Attached is the listing of 1985 State agency financings for your information.

I am sending this letter to the agencies shown below for their information. Please call me if you wish to discuss this further.

Sincerely,

EVENSEN DODGE, INC.



Patrick P. Born
Senior Vice President

/jgc

cc: Keith Colbo, Director, Department of Commerce
✓ Robert Pancich, Administrator, Economic Development Board
Jack Nielson, Administrator, Health Facility Authority
Jay McLeod, Administrator, Board of Housing
William A. Johnstone, Esquire, Dorsey & Whitney
Roy J. Koegen, Esquire, Preston, Thorgrimson, Ellis & Holman
Ellen Beaver, Chair, Capitol Finance Advisory Council

State of Montana - Bonded Debt
Historical Schedule of Bonds Issued

Issuing Entity	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
NON-UNIVERSITY (SEPARATE AUDIT)										
Board of Housing										
Single Family I										
Single Family II		75,002,290	252,020,000	85,000,000	55,000,000		150,000,000	13,600,000	35,060,000	21,470,000
Multi-Family					1,945,000		8,660,000		4,865,000	
1985 A	39,999,025									
1985 B	75,000,000									
1985 B1 B2	85,000,000									
Capital Appreciation										
Economic Development Board		3,650,000								
IDRB	12,475,000									
Muni. Finance Consolidation	4,925,000									
Health Facility Authority	18,575,000	41,300,000								
Agricultural Loan Authority	66,900,000	193,800								
Total	302,874,625	120,346,090	252,020,000	85,000,000	56,945,000	0	158,660,000	13,600,000	59,925,000	21,470,000
UNIVERSITY (SEPARATE AUDIT)										
BOR Equipment	9,090,000									
U of M - 1984 Building Fees			3,745,000							
- 1984 Auxiliary		4,980,000								
Enterprise Facilities										
- 1985 Refunding	11,093,643			1,350,000						
- 1954										
- 1984 PE Refunding		9,260,000	9,000,000							
- 1984 Series B		9,920,000								
- 1984 Series A										
- Museum of the Rockies	6,530,000									
- 1985 Refunding	29,110,000									
- 1984		7,145,000								
- 1986 A	6,745,000									
- 1984		7,380,000								
- 1985 Refunding	7,330,000									
- Revenue	3,300,000									
- 1972(Series A-H)										
Total University	73,198,643	98,685,000	12,745,000	1,350,000	0	0	0	0	0	0
TOTAL SEPARATE AUDIT	376,073,268	159,031,090	264,765,000	86,350,000	56,945,000	0	158,660,000	13,600,000	59,925,000	21,470,000

Issuing Entity	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
NON-UNIVERSITY (STANDARD AUDIT)										
Highways - 1983				64,000,000						
- 1976										
Bond Anticipation Notes	43,675,000		39,075,000							
Labor - ESD (PERS #1)										
(PERS #2)										
UNRC										
Water Development Coal Tax	28,365,000	10,485,000							84,600	
Various FMAA Bonds										
D of A										
Series 1985 GO Bonds	8,550,000									
Refunding 1983 "A"			38,160,000							
LRBP 1983 "B"			39,330,000							
Water Projects 1983 "C"		900,000	1,300,000							
1984 Series A Water Development										
Renewable Resource Development	1,100,000									
Water Development Program	2,000,000									
MCMST (6) 1978							19,130,000		2,275,000	
LRBP - Series 1980										
Series 1981										
TOTAL STANDARD AUDIT	33,690,000	11,985,000	137,865,000	64,000,000	36,550,000	0	19,130,000	0	2,359,000	0
TOTAL ISSUED	459,763,268	170,416,090	402,640,000	150,350,000	93,495,000	0	177,790,000	13,600,000	42,284,000	21,470,000
	18.20%	6.68%	34.24%	-2.57%	39.09%	0.00%	10.76%	0.00%	5.58%	0.00%

[illegible]

According to the attached letter, the auditor's position is that general fund is the proper source for funding the costs of the statewide audit and that the funds which derive the greatest benefit from the statewide audit are those that will float future bond issues.

To maximize the non-general fund reimbursements and be in compliance with HB 500 instructions, the statewide audit costs were allocated according to the outstanding bond debt on December 1984 and issued or planned in fiscal 1985 excluding the independent bonds. This resulted in the general fund paying 41 percent of the cost or \$51,250 and non-general fund sources paying 59 percent or \$73,750 each year. Table 3 shows the bond categories as defined primarily by Everson Dodge, Inc., Financial Advisor to Montana.

Table 3
Summary of State Agency/Corporation Indebtedness
(in Millions)
Information as of December 1984

Direct State Debt	Debt	*	Independent Bond Debt	Debt
a. G.O. Bonds - General Fund	\$ 81.2	*	a. Housing (5)	\$524.4
b. Tax Anticipation Notes	38.0	*	b. Health	44.7
State General Fund Debt (41%)	\$ 119.2	*	c. Student Loan	101.6
Direct State Debt--Non-General Fund		*	d. Board of Regents	76.8
a. G.O. Bonds - Non-General Fund	\$ 16.3	*	e. Agriculture	5.0
b. G.O. Bonds - (water)	2.2	*	f. Economic Development (Municipal)	4.0
c. Highway	103.1	*	g. Economic Development (Stand Alone)	10.0
d. Coal Severance	38.5	*	Total Independent Debt	\$766.5
Total Obligation	\$160.10	*		
Moral Obligation		*		
a. Economic Development (Umbrella)	\$ 10.0	*		
Total State Non-General Fund Debt (59%)	\$ 170.0	*		

To provide appropriation authority for the non-general fund sources a line-item has been added to the Governor's budget with language which allows the Office of Budget and Program Planning to distribute the spending authority to the agencies who benefit from the statewide audit.

Item 3 - Other General Fund

No allocation was made to non-general fund sources for the other general fund as the services provided were identified April 2 and the cost per service was not identified. Therefore, there was no time or basis for formulating a rationale about which agency benefited or how the agency benefited. Table 4 shows the services identified by the Legislative Auditor for the other general fund which is \$520,350 in fiscal 1986 and \$505,162 in fiscal 1987.

Table 4

Financial Compliance Audit Services Not Charged to Agencies

EDP (computers) audits and reviews
Legislative requests such as the G.A. survey
Compliance-related items of legislative interest such as FTE counts at 14 units, Patient Accounts at 9 institutions, etc.
Unauditable financial records
Development of management recommendation
Training auditors-in-charge due to turnover
Responding to public inquiry and agency questions
Fraud and theft follow-up

2. Maximize Non-General Fund Language

The following language was added:

"Agencies shall reserve enough cash in each fund to pay for audit costs and shall to the maximum extent allowable under federal regulations charge audit costs to federal funds."

3. 7 FTE Deleted

Seven auditors were deleted. Total reduction of general fund was \$155,015 each year of the biennium.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY



ROBERT A. RINGWOOD
LEGISLATIVE AUDITOR

April 1, 1985

Representative Gene Donaldson
House of Representatives
State Capitol
Helena, MT 59620

Representative Donaldson:

Pursuant to your request of March 27, 1985, my staff has prepared an analysis of the audit appropriation allocations contained in the second reading copy of HB 500. We have completed that analysis and transmitted the results of the Legislative Fiscal Analyst's Office. The analysis resulted in our recommending a transfer of over \$100,000 in the general fund share of the agency audit appropriations to the agency's other funds. The Legislative Fiscal Analyst should now determine the net effect on HB 500.

Your second request of March 27, 1985, dealt with the possibility of allocating the cost of the statewide audit to the benefitting funds. The funds that derive the greatest benefit from the statewide audit are those that will float future bond issues. We are unable to forecast with any precision future bond issues. For that reason, the theoretical distribution of statewide audit costs to the various funds which may possibly issue bonds is impractical.

Some methods of allocating statewide audit costs that would be practical are not equitable. For instance, the statewide audit costs could be allocated to all agencies which have issued bonds in the past, but outstanding bonds would reap no benefit. Only those bonds that will be issued in the future will benefit. Those funds that have outstanding bonds include universities, water projects, economic development board, housing board, long-range building program, highways, and the health facilities authority among others. Although both general obligation bonds and revenue bonds benefit from the statewide audit, the general obligation bonds receive a more direct and substantial benefit.

A-1e

Representative Gene Donaldson


April 1, 1985

Page 2

We have researched this request in detail and it is our position that the state's General Fund is the proper source for funding the costs of the statewide audit. In searching for a way to reasonably allocate the cost of statewide audit, we contacted eight other states which perform similar audits. In each case, these states indicated they pay for their audits from their general fund. This fact supports the conclusion we have reached, that maintenance of the state's position in the credit markets is a legitimate general fund cost.

I hope this information is of assistance to you and addresses your concerns. We would be happy to discuss this matter further and to provide any additional information you request.

Sincerely,


Robert R. Ringwood
Legislative Auditor

RRR/jw392a

✓ cc: Judy Rippingale, Legislative Fiscal Analyst

A-1f

SENATE BILL 240

9

3-10-87

SB 240

"Pick Up and Pay"

This is a technical bill which creates a tax deferment for members of the FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM.

1. What is the "pick up and pay" concept?

"Pick up and pay" is basically a deferred income tax plan which permits the employer, for tax purposes, to pay the 6% employee contribution to the retirement system with before tax dollars. Currently, Firefighters' Unified Retirement System members pay federal and state tax on their FURS contributions at the time the contributions are made.

2. Is this in effect a pay raise?

No. Employees will simply be deferring payment of federal and state taxes on a portion of their income. However, most public employees on retirement have a lesser taxable income than they did while they were employed, and therefore, should pay less taxes on these contributions.

3. Are other states doing this?

Yes, currently about 34 other states have adopted the "pick up and pay" concept.

4. What effect will this have on current retirees?

None. This proposal will only apply to contributions on salaries earned after July 1, 1987.

5. What is the effect on local government and school revenues?

None.

6. Will this effect collective bargaining agreements?

No. Retirement benefits are not a negotiated item.

7. How will the retirement system keep straight which contributions have been taxed and which haven't?

By simply freezing the present contributions at July 1, 1987 through their computer system and accounting for future contributions separately.

8. How will a person know the amount of payment that is taxable upon withdrawal or retirement?

In the case where an employee takes a lump sum payment, the retirement system sends out a 1099 form showing the breakout of the taxable portion.

At the time an employee retires, the retirement system provides the necessary information to complete the tax forms. Thereafter, at the end of each year, the system provides a W-2P form which shows the amount of benefits received within the calendar year.

The employer pick up of employee contributions is simply a deferment of taxes initiated and permitted by the Internal Revenue Service. It permits an employer to reduce the gross salary of an employee by the amount of their retirement contributions for federal income tax purposes only. For calculation of retirement benefits, the gross salary remains the same as it was prior to the pick up.

CURRENT "87" TAX LAW SCENARIO

24 Years of Service

Age 50 at Retirement

Beneficiary 48 Years Old at Retirement

Annual Salary on Retirement \$12,960

IRS LIFE EXPECTANCY CHART = 35.8 years

(Using combination of retiree and beneficiary:
This would equal beneficiary or retiree
reaching 85.8 years old)

The expected return over 35.8 years at \$12,960 = \$463,968

The member's contributions paid by the employee = \$30,000 over 24 yrs
service

FORMULA IS: \$30,000 divided by \$463,968 = 6.46%

6.46% of \$12,960 = \$837 per year back tax free,
and we paid taxes on the total
contribution during our employment.

WITNESS STATEMENT

NAME Edward L. Flies BILL NO. SB 240
ADDRESS 200 N. Montana Ave. Helena DATE 3-10-87
WHOM DO YOU REPRESENT? Montana State Fireman's Association
SUPPORT ✓ OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

VISITORS' REGISTER

STATE ADMINISTRATION

COMMITTEE

BILL NO. SB 230

DATE 3-10-87

SPONSOR Himsl

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

STATE ADMINISTRATION

COMMITTEE

BILL NO. SB 197

DATE 3-10-87

SPONSOR Rasmussen

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

STATE ADMINISTRATION

COMMITTEE

BILL NO. SB 136

DATE 3-10-87

SPONSOR Mazurek

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

STATE ADMINISTRATION

COMMITTEE

BILL NO. SB 240

DATE 3-10-87

SPONSOR Walker

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.