

HB 100 INTRODUCED BY SALES
REQUIRING CERTAIN PUBLIC OFFICIALS AND EMPLOYEES TO
BECOME MEMBERS OF PUBLIC EMPLOYEES
RETIREMENT SYSTEM

1/07 INTRODUCED
1/07 REFERRED TO STATE ADMINISTRATION
1/08 FISCAL NOTE REQUESTED
1/13 HEARING
1/14 FISCAL NOTE RECEIVED
1/23 TABLED IN COMMITTEE

1 HB BILL NO. 100
2 INTRODUCED BY SALES

3
4 A BILL FOR AN ACT ENTITLED: "AN ACT REQUIRING CERTAIN
5 DISTRICT JUDGES, SUPREME COURT JUSTICES, HIGHWAY PATROL
6 OFFICERS, SHERIFFS, GAME WARDENS, POLICE OFFICERS, AND
7 FIREFIGHTERS TO BECOME MEMBERS OF THE PUBLIC EMPLOYEES'
8 RETIREMENT SYSTEM; AMENDING SECTIONS 19-5-301, 19-6-301,
9 19-7-301, 19-7-302, 19-8-301, 19-8-302, 19-9-301, AND
10 19-13-301, MCA; AND PROVIDING AN EFFECTIVE DATE."

11
12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

13 Section 1. Section 19-5-301, MCA, is amended to read:
14 "19-5-301. Membership. (1) Except as provided in
15 subsection (2), a judge of a district court or a justice of
16 the supreme court must be a member of the Montana judges'
17 retirement system.

18 (2) (a) A judge or justice who was a member of the
19 PERS public employees' retirement system provided for in
20 Title 19, chapter 3, prior to December 31, 1984, may elect
21 to remain under that system by notifying the public
22 employees' retirement board in writing of the election on or
23 before October 1, 1985.

24 ~~(2)--Every-other-judge-of-a-district-court--or--justice~~
25 ~~of-the-supreme-court-must-be-a-member-of-the-Montana-judges'~~

1 retirement-system:
2 (b) A judge or justice initially elected or appointed
3 on or after July 1, 1987, must become a member of the public
4 employees' retirement system on the first day of his term of
5 office."

6 Section 2. Section 19-6-301, MCA, is amended to read:
7 "19-6-301. Membership. ~~All~~ (1) Except as provided in
8 subsection (2), all members of the Montana highway patrol,
9 including the supervisor and assistant supervisors, must be
10 members of the retirement system.

11 (2) A member of the Montana highway patrol hired on or
12 after July 1, 1987, must become a member of the public
13 employees' retirement system provided for in Title 19,
14 chapter 3, on the first day of his employment."

15 Section 3. Section 19-7-301, MCA, is amended to read:
16 "19-7-301. Membership. (1) Every sheriff is required
17 to become a member of the sheriffs' retirement system on
18 July 1, 1974, unless he was previously a member of the
19 public employees' retirement system, in which case he may at
20 his option become a member of the sheriffs' retirement
21 system. All sheriffs who become members of the sheriffs'
22 retirement system must remain members so long as actively
23 employed in such capacity.

24 (2) A sheriff initially elected or appointed after
25 July 1, 1974, but before July 1, 1987, must become a member



1 of the sheriffs' retirement system on the first day of his
2 term of office or employment.

3 (3) A sheriff initially elected or appointed on or
4 after July 1, 1987, must become a member of the public
5 employees' retirement system provided for in Title 19,
6 chapter 3, on the first day of his term of office or
7 employment."

8 Section 4. Section 19-7-302, MCA, is amended to read:

9 "19-7-302. ~~Ineligibility---for---membership--in~~ Prior
10 benefits under public employees' retirement system. {1}
11 After--July--17--1974,--no--sheriff--is--eligible--to--become--a
12 member--of--the--public--employees'--retirement--system--and--the
13 provisions--of--The--Public--Employees'--Retirement--System--Act--do
14 not--apply--to--sheriffs,--except--as--provided--in--19-7-301.

15 {2} No provision of this chapter is--to may be
16 construed as to deny any a sheriff any benefits accrued
17 under provisions of the public employees' retirement system
18 prior to July 1, 1974."

19 Section 5. Section 19-8-301, MCA, is amended to read:

20 "19-8-301. Membership. (1) Except as provided in
21 19-8-302, each state game warden hired before July 1, 1987,
22 including all warden supervisory personnel, whose salary or
23 compensation for services is paid out of the department of
24 fish, wildlife, and parks moneys and who is assigned to law
25 enforcement in the department of fish, wildlife, and parks

1 ~~shall~~ must become a member of the retirement system when
2 first becoming a state game warden. Except as provided in
3 subsection (2) and 19-8-302, all state game wardens shall be
4 members of the retirement system so long as actively
5 employed in that capacity.

6 (2) A game warden hired on or after July 1, 1987, must
7 become a member of the public employees' retirement system
8 provided for in Title 19, chapter 3, on the first day of his
9 employment."

10 Section 6. Section 19-8-302, MCA, is amended to read:

11 "19-8-302. ~~Ineligibility---for---public---employees'~~
12 ~~retirement--system-----transfer~~ Transfer of membership. {1}
13 After--July--17--1963,--no--new--state--employee--appointed--as--a
14 state--game--warden--will--be--eligible--for--membership--in--the
15 public--employees'--retirement--system,--and--the--provisions--of
16 The--Public--Employees'--Retirement--System--Act--will--not--apply
17 to--state--game--wardens.

18 {2}{1} A person hired after July 1, 1963, but before
19 July 1, 1987, who is a member of the game wardens'
20 retirement system assigned to law enforcement who transfers
21 to a position involving duties other than law enforcement in
22 the fish and game department may retain membership in the
23 game wardens' retirement system by filing a written election
24 of intent with the board no later than August 1, 1977, or no
25 later than 30 days after transfer to the new position,

1 whichever is later.

2 †3†(2) A person who is a member of the public
3 employees' retirement system who transfers to a position as
4 a state game warden may elect to become a member of the game
5 wardens' retirement system or may continue membership in the
6 public employees' retirement system by filing a written
7 election of intent with the board no later than August 1,
8 1977, or no later than 30 days after transfer to the new
9 position, whichever is later."

10 Section 7. Section 19-9-301, MCA, is amended to read:

11 "19-9-301. Active membership. (1) (a) A police officer
12 hired before July 1, 1987, becomes an active member under
13 the plan:

14 †a†(i) on the date his employment by an employer
15 commences;

16 †b†(ii) on July 1, 1977, if he is employed by an
17 employer on that date; or

18 †c†(iii) in the case of an employer which elects to
19 join the plan as provided in 19-9-107, on the effective date
20 of such election if he is employed by the employer on that
21 date.

22 †2†(b) Upon becoming eligible for membership, he shall
23 complete such forms and furnish such proof as may be
24 required by the board.

25 (2) A police officer hired on or after July 1, 1987,

1 must become a member of the public employees' retirement
2 system provided for in Title 19, chapter 3, on the first day
3 of his employment."

4 Section 8. Section 19-13-301, MCA, is amended to read:

5 "19-13-301. Active membership. (1) (a) A full-paid
6 firefighter hired before July 1, 1987, becomes an active
7 member under the plan:

8 †a†(i) on the first day of his employment by an
9 employer;

10 †b†(ii) on July 1, 1981, if he is employed by an
11 employer on that date; or

12 †c†(iii) in the case of an employer that elects to join
13 the plan as provided in 19-13-108, on the effective date of
14 such election if he is employed by the employer on that
15 date.

16 †2†(b) Upon becoming eligible for membership, he shall
17 complete the forms and furnish any proof required by the
18 board.

19 †3†(2) A part-paid firefighter hired before July 1,
20 1987, may elect to become a member of the plan by filing a
21 membership application with the board.

22 (3) (a) A full-paid firefighter hired on or after July
23 1, 1987, must become a member of the public employees'
24 retirement system provided for in Title 19, chapter 3, on
25 the first day of his employment.

1 (b) A part-paid firefighter hired on or after July 1,
2 1987, may elect to become a member of the public employees'
3 retirement system by filing a membership application with
4 the board."

5 NEW SECTION. Section 9. Effective date. This act is
6 effective July 1, 1987.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB100, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

A bill for an act entitled: "An act requiring certain district judges, supreme court justices, highway patrol officers, sheriffs, game wardens, police officers, and firefighters to become members of the Public Employees' Retirement System.

ASSUMPTIONS:

1. Salaries for current members of the Judges', Highway Patrol, Sheriffs', Game Wardens', Municipal Police, and Firefighters' Unified Retirement Systems and new hires becoming members of the Public Employees' Retirement System after July 1, 1987, are expected to remain at their June 30, 1986, average levels throughout the next biennium.

<u>System</u>	<u>Total Members</u>	<u>Total Payroll</u>	<u>Average Salary</u>
Judges'	42	\$ 2,069,519	\$ 49,274
Highway Patrol	201	5,274,317	26,240
Sheriffs'	541	11,509,790	21,275
Game Wardens'	85	2,153,565	25,336
Municipal Police	436	10,240,213	23,487
Firefighters' Unified	403	8,918,528	22,130

(Source: 1986 Actuarial Valuations)

2. The difference between the currently required contribution rates on the salaries of effected employees after June 30, 1987, and the contribution rates employers will be required to contribute under the Public Employees Retirement System are expected to accrue to those effected government entities.

<u>System</u>	<u>State</u>	<u>Local Government</u>	<u>Other</u>	<u>Employee</u>	<u>Total</u>	<u>Soc. Sec.</u>
Judges'	6.0%	-0-	32.0%*	6%/7%	44.00/45.00%	Yes
Highway Patrol	26.75%		2.16%**	7.59%	36.50%	No
Sheriffs'	-0-	7.6%	-0-	7.00%	14.60%	Yes
Game Wardens'	7.15%	-0-	10.20%***	7.90%	25.25%	Yes
Municipal Police	-0-	13.02%	15.06%****	6%/7.5%	35.27/35.58%	No
Firefighters' Unified	-0-	13.02%	22.98%****	6.00%	42.00%	No
Public Employees'	6.417%	(6.417%)		6.00%	12.417%	Yes

(Source: Montana Codes and 1986 Actuarial Valuations)

David L. Hunter DATE 1/14/87
 DAVID L. HUNTER, BUDGET DIRECTOR
 Office of Budget and Program Planning

Walter Sales DATE 1/15/87
 WALTER SALES, PRIMARY SPONSOR

Fiscal Note for HB100, as introduced.

HB-100

NOTES: *31.0% of salaries are paid from district court fees and are assumed to accrue to the general fund if not used for the purpose of paying retirement contributions for judges. 1% of salaries are paid from supreme court fees and are also assumed to accrue to the general fund to the extent they are not used to pay retirement contributions for. (Note, an additional \$31,000 is currently due to the Judges Retirement System from this fund and has been subtracted from savings anticipated for FY88 and FY89.)

**The state also contributes a portion of fees from driver's licenses as provided in 61-5-121 MCA and this amount varies from year-to-year. In 1986, it represented 2.16% of salaries and is assumed for the purpose of calculation of this fiscal note to remain constant and accrue to the general fund in the future to the extent it is not used to pay for retirement benefits for highway patrolmen.

***The state contributes funds available from fines and forfeitures into the Game Wardens' Retirement System. There will be no savings in this category since this total amount is statutorily deposited to the fund in total, not tied to salaries of members.

****The state contributes 15.06% of municipal police officers' salaries from the premium tax fund on motor vehicle property and casualty insurance policies and 22.98% of firefighters' salaries from the premium taxes on the insurance risks enumerated in 19-11-512 MCA. These amounts will be assumed to accrue to the general fund in the future to the extent they are not required for contributions for retirement benefits for firefighters.

3. Turnover in affected positions in next biennium is expected to remain at same rates as for previous two fiscal years:

<u>System</u>	<u>New hires for FY85 and FY86</u>
Judges'	4 (2 added statutorily are not included)
Highway Patrol	37
Sheriffs'	264
Game Wardens'	19
Municipal Police	105
Firefighters' Unified	68

(Source: Public Employees' Retirement Division files)

4. Half the turnover will occur on December 31, 1987, and half will occur on December 31, 1988. Therefore, 25% of the savings will be realized during FY88 and 75% of the savings will be realized during FY89.

5. Current members of the Highway Patrol, Municipal Police and Firefighters' Unified Retirement Systems are not currently covered by Social Security. While Highway Patrol and Police may elect to be covered by Social Security, it is assumed in this fiscal note that this will not occur during the next biennium. However, with reduced retirement coverage, it is assumed that those new Highway Patrol and Police joining the PERS will eventually elect Social Security coverage, thereby increasing employer contribution rates by at least 7.15% in the future. The future net savings/(costs) to employers if this is the case has not been calculated.
6. The current unfunded liabilities of the resulting "closed" retirement systems will not decrease and will require additional employer and/or state contributions to amortize any current unfunded liabilities of the systems.

<u>System</u>	<u>1986 Unfunded Liability</u>	<u>Contribution Rate Required in next biennium</u>	<u>Amortization Period*</u>
Judges'	\$ 5,061,998	.07640%	50 years
Highway Patrol	20,900,452	.15212%	38 years
Sheriffs'	-0-	-0-	none
Game Wardens'	3,560,029	.09561%	19 years
Municipal Police	34,759,407	.14110%	34 years
Firefighters' Unified	49,126,785	.19981%	41 years

*Based on current membership, salary and interest rate projections

7. This fiscal note assumes that state and local government employers will make additional payments in order to amortize the current unfunded liabilities of the closed systems during the next biennium. If not actually paid during the next biennium, these will accrue to future taxpayers, with interest; there will be a decrease in FY88 and FY89 expenditures over those shown in this fiscal note and future liabilities will increase.
8. Because membership of (and therefore, contributions to) the closed systems will diminish while vested benefits continue to increase, the contribution rate required to amortize the unfunded liability of each of the closed systems will also increase. Therefore, the unfunded liability costs to employers may be understated in this fiscal note. Ongoing biennial actuarial valuations of these closed systems will be able to determine the exact contribution rate increases; this has not been attempted for the purposes of this fiscal note.

Fiscal Note Request, HB100, as introduced.

Form BD-15

Page 4

FISCAL IMPACT:

	<u>FY88</u>			<u>FY89</u>		
	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>
	<u>Law</u>	<u>Law</u>		<u>Law</u>	<u>Law</u>	
<u>Expenditures:</u>						
Benefits and Claims	\$296,827	\$ 38,546	\$(258,281)	\$890,482	\$115,638	\$(774,844)
<u>Funding:</u>						
General Fund	\$287,922	\$ 37,390	\$(249,460)	\$863,768	\$112,169	\$(748,380)
State Special Revenue	8,905	\$ 1,156	(8,821)	26,714	3,469	\$(26,464)
TOTAL	\$296,827	\$ 38,546	\$(258,281)	\$890,482	\$115,638	\$(774,844)

Revenues:

N/A

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

This legislation will decrease county expenditures by \$66,445 and increase some cities expenditures by \$10,883 for the 88-89 Biennium. (See technical note)

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The long-term impact of this bill will be to reduce the retirement benefits, and thereby the costs of providing those benefits, for new judges, highway patrol, sheriffs, game wardens, municipal police and firefighters in Montana. While savings will be appreciated in state and county government expenditures (city expenditures will increase) over the next biennium, these savings will diminish as more members of the closed systems quit or retire.

Costs of amortizing the unfunded liabilities in closed systems may actually increase substantially (i.e., Judges, Highway Patrol and Municipal Police Retirement Systems) before vanishing completely in approximately 50 years. Therefore, there will be actual increases in state and local government expenditures for an interim period of time --- especially if a Social Security contribution rate of 7.15% is added for some employers.

TECHNICAL OR MECHANICAL DEFECTS IN PROPOSED LEGISLATION OR CONFLICTS WITH EXISTING LEGISLATION:

The bill as drafted does not provide a mechanism by which to continue adequate funding of the current unfunded liabilities of the retirement systems to be "closed." An amendment will be needed to provide such a mechanism in order to meet current state and federal code requirements.

This amendment will allow funding for current liabilities and will impact the savings shown in part IV of this note.

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB100, as introduced.

REVISED FISCAL NOTE

DESCRIPTION OF PROPOSED LEGISLATION:

A bill for an act entitled: "An act requiring certain district judges, supreme court justices, highway patrol officers, sheriffs, game wardens, police officers, and firefighters to become members of the Public Employees' Retirement System.

ASSUMPTIONS:

1. Salaries for current members of the Judges', Highway Patrol, Sheriffs', Game Wardens', Municipal Police, and Firefighters' Unified Retirement Systems and new hires becoming members of the Public Employees' Retirement System after July 1, 1987, are expected to remain at their June 30, 1986, average levels throughout the next biennium.

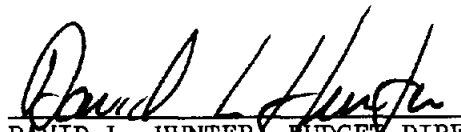
<u>System</u>	<u>Total Members</u>	<u>Total Payroll</u>	<u>Average Salary</u>
Judges'	42	\$ 2,069,519	\$ 49,274
Highway Patrol	201	5,274,317	26,240
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Game Wardens'	85	2,153,565	25,336
Municipal Police	436	10,240,213	23,487
Firefighters' Unified	403	8,918,528	22,130

(Source: 1986 Actuarial Valuations)

2. The difference between the currently required contribution rates on the salaries of effected employees after June 30, 1987, and the contribution rates employers will be required to contribute under the Public Employees Retirement System are expected to accrue to those effected government entities.

<u>System</u>	<u>State</u>	<u>Local Government</u>	<u>Other</u>	<u>Employee</u>	<u>Total</u>	<u>Soc. Sec.</u>
Judges'	6.0%	-0-	32.0%*	6%/7%	44.00/45.00%	Yes
Highway Patrol	26.75%		2.16%**	7.59%	36.50%	No
Sheriffs'	-0-	7.6%	-0-	7.00%	14.60%	Yes
Game Wardens'	7.15%	-0-	10.20%***	7.90%	25.25%	Yes
Municipal Police	-0-	13.02%	15.06%****	6%/7.5%	35.27/35.58%	No
Firefighters' Unified	-0-	13.02%	22.98%****	6.00%	42.00%	No
Public Employees'	6.417%	(6.417%)		6.00%	12.417%	Yes

(Source: Montana Codes and 1986 Actuarial Valuations)

 DATE 1/23/87
 DAVID L. HUNTER, BUDGET DIRECTOR
 Office of Budget and Program Planning

 DATE 1/23/87
 WALTER SALES, PRIMARY SPONSOR

Fiscal Note for HB100, as introduced.

REVISED FISCAL NOTE

NOTES: *31.0% of salaries are paid from district court fees and are assumed to accrue to the general fund if not used for the purpose of paying retirement contributions for judges. 1% of salaries are paid from supreme court fees and are also assumed to accrue to the general fund to the extent they are not used to pay retirement contributions for. (Note, an additional \$31,000 is currently due to the Judges Retirement System from this fund and has been subtracted from savings anticipated for FY88 and FY89.)

**The state also contributes a portion of fees from driver's licenses as provided in 61-5-121 MCA and this amount varies from year-to-year. In 1986, it represented 2.16% of salaries and is assumed for the purpose of calculation of this fiscal note to remain constant and accrue to the general fund in the future to the extent it is not used to pay for retirement benefits for highway patrolmen.

***The state contributes funds available from fines and forfeitures into the Game Wardens' Retirement System. There will be no savings in this category since this total amount is statutorily deposited to the fund in total, not tied to salaries of members.

****The state contributes 15.06% of municipal police officers' salaries from the premium tax fund on motor vehicle property and casualty insurance policies and 22.98% of firefighters' salaries from the premium taxes on the insurance risks enumerated in 19-11-512 MCA. These amounts will be assumed to accrue to the general fund in the future to the extent they are not required for contributions for retirement benefits for firefighters.

3. Turnover in affected positions in next biennium is expected to remain at same rates as for previous two fiscal years:

<u>System</u>	<u>New hires for FY85 and FY86</u>
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(Source: Public Employees' Retirement Division files)

4. Half the turnover will occur on December 31, 1987, and half will occur on December 31, 1988. Therefore, 25% of the savings will be realized during FY88 and 75% of the savings will be realized during FY89.

5. Current members of the Highway Patrol, Municipal Police and Firefighters' Unified Retirement Systems are not currently covered by Social Security. While Highway Patrol and Police may elect to be covered by Social Security, it is assumed in this fiscal note that this will not occur during the next biennium. However, with reduced retirement coverage, it is assumed that those new Highway Patrol and Police joining the PERS will eventually elect Social Security coverage, thereby increasing employer contribution rates by at least 7.15% in the future. The future net savings/(costs) to employers if this is the case has not been calculated.
6. The current unfunded liabilities of the resulting "closed" retirement systems will not decrease and will require additional employer and/or state contributions to amortize any current unfunded liabilities of the systems.

<u>System</u>	<u>1986 Unfunded Liability</u>	<u>Contribution Rate Required in next biennium</u>	<u>Amortization Period*</u>
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*Based on current membership, salary and interest rate projections

7. This fiscal note assumes that state and local government employers will make additional payments in order to amortize the current unfunded liabilities of the closed systems during the next biennium. If not actually paid during the next biennium, these will accrue to future taxpayers, with interest; there will be a decrease in FY88 and FY89 expenditures over those shown in this fiscal note and future liabilities will increase.
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Fiscal Note Request, HB100, as introduced. REVISED FISCAL NOTE

Form BD-15

Page 4

FISCAL IMPACT:

	FY88			FY89		
	Current	Proposed	Difference	Current	Proposed	Difference
	Law	Law		Law	Law	
<u>Expenditures:</u>						
Employee Contribution	\$271,559	\$161,785	\$(109,774)	\$814,678	\$485,355	\$(329,323)
<u>Funding:</u>						
General Fund	\$262,954	\$154,062	\$(108,892)	\$788,864	\$462,187	\$(326,677)
State Special Revenue	8,605	\$ 7,723	(882)	25,814	23,168	\$(2,646)
TOTAL	\$271,559	\$161,785	\$(109,774)	\$814,678	\$485,355	\$(329,323)

Revenues:

N/A

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

Decreases County expenditures by: \$16,611 (FY88) \$49,834 (FY89)
Increases expenditures of some cities by: \$ 1,974 (FY88) \$ 5,924 (FY89)

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The long-term impact of this bill will be to reduce the retirement benefits, and thereby the costs of providing those benefits, for new judges, highway patrol, sheriffs, game wardens, municipal police and firefighters in Montana. While savings will be appreciated in state and county government expenditures (city expenditures will increase) over the next biennium, these savings will diminish as more members of the closed systems quit or retire.

Costs of amortizing the unfunded liabilities in closed systems may actually increase substantially (i.e., Judges, Highway Patrol and Municipal Police Retirement Systems) before vanishing completely in approximately 50 years. Therefore, there will be actual increases in state and local government expenditures for an interim period of time --- especially if a Social Security contribution rate of 7.15% is added for some employers.

TECHNICAL OR MECHANICAL DEFECTS IN PROPOSED LEGISLATION OR CONFLICTS WITH EXISTING LEGISLATION:

The bill as drafted does not provide a mechanism by which to continue adequate funding of the current unfunded liabilities of the retirement systems to be "closed." An amendment will be needed to provide such a mechanism in order to meet current state and federal code requirements.

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ASSUMPTIONS:

1. Salaries for current members of the Judges', Highway Patrol, Sheriffs', Game Wardens', Municipal Police, and Firefighters' Unified Retirement Systems and new hires becoming members of the Public Employees' Retirement System after July 1, 1987, are expected to remain at their June 30, 1986, average levels throughout the next biennium.


<u>System</u>	<u>Total Members</u>	<u>Total Payroll</u>	<u>Average Salary</u>
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2. The difference between the currently required contribution rates on the salaries of effected employees after June 30, 1987, and the contribution rates employers will be required to contribute under the Public Employees Retirement System are expected to accrue to those effected government entities.

<u>System</u>	<u>State</u>	<u>Local Government</u>	<u>Other</u>	<u>Employee</u>	<u>Total</u>	<u>Soc. Sec.</u>
Judges'	6.0%	-0-	32.0%*	6%/7%	44.00/45.00%	Yes
Highway Patrol	26.75%		2.16%**	7.59%	36.50%	No
Sheriffs'	-0-	7.6%	-0-	7.00%	14.60%	Yes
Game Wardens'	7.15%	-0-	10.20%***	7.90%	25.25%	Yes
Municipal Police	-0-	13.02%	15.06%****	6%/7.5%	35.27/35.58%	No
Firefighters' Unified	-0-	13.02%	22.98%****	6.00%	42.00%	No
Public Employees'	6.417%	(6.417%)		6.00%	12.417%	Yes

(Source: Montana Codes and 1986 Actuarial Valuations)


 DATE 1/26/87
 DAVID L. HUNTER, BUDGET DIRECTOR
 Office of Budget and Program Planning


 DATE 1/26/87
 WALTER SALES, PRIMARY SPONSOR

Fiscal Note for HB100, as introduced.

REVISED FISCAL NOTE

HB-100

NOTES: *31.0% of salaries are paid from district court fees and are assumed to accrue to the general fund if not used for the purpose of paying retirement contributions for judges. 1% of salaries are paid from supreme court fees and are also assumed to accrue to the general fund to the extent they are not used to pay retirement contributions for. (Note, an additional \$31,000 is currently due to the Judges Retirement System from this fund and has been subtracted from savings anticipated for FY88 and FY89.)

**The state also contributes a portion of fees from driver's licenses as provided in 61-5-121 MCA and this amount varies from year-to-year. In 1986, it represented 2.16% of salaries and is assumed for the purpose of calculation of this fiscal note to remain constant and accrue to the general fund in the future to the extent it is not used to pay for retirement benefits for highway patrolmen.

***The state contributes funds available from fines and forfeitures into the Game Wardens' Retirement System. There will be no savings in this category since this total amount is statutorily deposited to the fund in total, not tied to salaries of members.

****The state contributes 15.06% of municipal police officers' salaries from the premium tax fund on motor vehicle property and casualty insurance policies and 22.98% of firefighters' salaries from the premium taxes on the insurance risks enumerated in 19-11-512 MCA. These amounts will be assumed to accrue to the general fund in the future to the extent they are not required for contributions for retirement benefits for firefighters.

3. Turnover in affected positions in next biennium is expected to remain at same rates as for previous two fiscal years:

<u>System</u>	<u>New hires for FY85 and FY86</u>
Judges'	4 (2 added statutorily are not included)
Highway Patrol	37
Sheriffs'	264
Game Wardens'	19
Municipal Police	105
Firefighters' Unified	68

(Source: Public Employees' Retirement Division files)

4. Half the turnover will occur on December 31, 1987, and half will occur on December 31, 1988. Therefore, 25% of the savings will be realized during FY88 and 75% of the savings will be realized during FY89.

5. Current members of the Highway Patrol, Municipal Police and Firefighters' Unified Retirement Systems are not currently covered by Social Security. While Highway Patrol and Police may elect to be covered by Social Security, it is assumed in this fiscal note that this will not occur during the next biennium. However, with reduced retirement coverage, it is assumed that those new Highway Patrol and Police joining the PERS will eventually elect Social Security coverage, thereby increasing employer contribution rates by at least 7.15% in the future. The future net savings/(costs) to employers if this is the case has not been calculated.

6. The current unfunded liabilities of the resulting "closed" retirement systems will not decrease and will require additional employer and/or state contributions to amortize any current unfunded liabilities of the systems.

<u>System</u>	<u>1986 Unfunded Liability</u>	<u>Contribution Rate Required in next biennium</u>	<u>Amortization Period*</u>
Judges'	\$ 5,061,998	.07640%	50 years
Highway Patrol	20,900,452	.15212%	38 years
Sheriffs'	-0-	-0-	none
Game Wardens'	3,560,029	.09561%	19 years
Municipal Police	34,759,407	.14110%	34 years
Firefighters' Unified	49,126,785	.19981%	41 years

*Based on current membership, salary and interest rate projections

7. This fiscal note assumes that state and local government employers will make additional payments in order to amortize the current unfunded liabilities of the closed systems during the next biennium. If not actually paid during the next biennium, these will accrue to future taxpayers, with interest; there will be a decrease in FY88 and FY89 expenditures over those shown in this fiscal note and future liabilities will increase.

8. Because membership of (and therefore, contributions to) the closed systems will diminish while vested benefits continue to increase, the contribution rate required to amortize the unfunded liability of each of the closed systems will also increase. Therefore, the unfunded liability costs to employers may be understated in this fiscal note. Ongoing biennial actuarial valuations of these closed systems will be able to determine the exact contribution rate increases; this has not been attempted for the purposes of this fiscal note.

FISCAL IMPACT:

	<u>FY88</u>			<u>FY89</u>		
	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>
	<u>Law</u>	<u>Law</u>		<u>Law</u>	<u>Law</u>	
<u>Expenditures:</u>						
Employer Contribution	\$271,559	\$161,785	\$(109,774)	\$814,678	\$485,355	\$(329,323)
<u>Funding:</u>						
General Fund	\$262,954	\$154,062	\$(108,892)	\$788,864	\$462,187	\$(326,677)
State Special Revenue	8,605	\$ 7,723	(882)	25,814	23,168	\$(2,646)
TOTAL	\$271,559	\$161,785	\$(109,774)	\$814,678	\$485,355	\$(329,323)

Revenues:

N/A

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

Decreases County expenditures by: \$16,611 (FY88) \$49,834 (FY89)
Increases expenditures of some cities by: \$ 1,974 (FY88) \$ 5,924 (FY89)

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The long-term impact of this bill will be to reduce the retirement benefits, and thereby the costs of providing those benefits, for new judges, highway patrol, sheriffs, game wardens, municipal police and firefighters in Montana. While savings will be appreciated in state and county government expenditures (city expenditures will increase) over the next biennium, these savings will diminish as more members of the closed systems quit or retire.

Costs of amortizing the unfunded liabilities in closed systems may actually increase substantially (i.e., Judges, Highway Patrol and Municipal Police Retirement Systems) before vanishing completely in approximately 50 years. Therefore, there will be actual increases in state and local government expenditures for an interim period of time --- especially if a Social Security contribution rate of 7.15% is added for some employers.

TECHNICAL OR MECHANICAL DEFECTS IN PROPOSED LEGISLATION OR CONFLICTS WITH EXISTING LEGISLATION:

The bill as drafted does not provide a mechanism by which to continue adequate funding of the current unfunded liabilities of the retirement systems to be "closed." An amendment will be needed to provide such a mechanism in order to meet current state and federal code requirements.

This amendment will allow funding for current liabilities and will impact the savings shown in part IV of this note.

HB100