SENATE BILL NO. 221

INTRODUCED BY Dorothy Eck, Galvin, Crippen, Towe

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING AN AD HOC INCREASE IN BENEFITS FOR CERTAIN MEMBERS OF THE MUNICIPAL POLICE OFFICERS' RETIREMENT SYSTEM AND THEIR SURVIVORS; INCREASING STATE AND EMPLOYER CONTRIBUTIONS TO ACTUARIALLY FUND THE BENEFIT INCREASE; AMENDING SECTIONS 19-9-702 AND 19-9-703, MCA; AND PROVIDING AN EFFECTIVE DATE."

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

NEW SECTION. **Section 1. Minimum monthly benefit for certain members and survivors.** (1) On July 1, 1995, a retired member who had achieved the rank of sergeant or higher or a survivor of the member is eligible to receive a monthly benefit of not less than 50% of the current monthly compensation for a newly appointed sergeant, as provided during the 1996 fiscal year in the budget of the city that last employed the member.

(2) If the city that last employed the member does not currently employ a member at the rank of sergeant, the benefit described in subsection (1) may not be less than one-half of the average monthly compensation paid to all newly appointed sergeants, as provided during the 1996 fiscal year in the budgets of those cities that participate in the system and employ a member at the rank of sergeant.

Section 2. Section 19-9-702, MCA, is amended to read:

"**19-9-702. State contribution.** The state of Montana shall make its contributions through the state auditor out of the premium tax on motor vehicle property and casualty insurance policies. The payments must be made annually after the end of each fiscal year but no later than November 1 from the gross premium tax after deduction for cancellations and returned premiums. The division shall notify the auditor by September 1 of each fiscal year of the annual compensation paid to all active members during the preceding fiscal year. The state's contribution is ~~15.66%~~ 16.5% of compensation paid to members."

Section 3. Section 19-9-703, MCA, is amended to read:

"**19-9-703. Employer contribution.** Each employer shall make its contribution through the city treasurer or other appropriate official out of money available to the city for that purpose. The employer's contribution, which must be paid monthly to the division, is ~~14.36%~~ 15.4% of the compensation paid to all active members."

NEW SECTION. **Section 4. Codification instruction.** [Section 1] is intended to be codified as an integral part of Title 19, chapter 9, part 10, and the provisions of Title 19, chapter 9, part 10, apply to [section 1].

NEW SECTION. **Section 5. Effective date.** [This act] is effective July 1, 1995.

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0221, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:
The bill will provide an ad hoc (one time, permanent) increase in benefits to approximately 75% of the current retirees in the Municipal Police Officers' Retirement System (MPORS). The benefit enhancement will be actuarially funded through permanently increased employer and state contributions to the MPORS trust fund.

ASSUMPTIONS:

1. On July 1, 1994, there were 480 retired members of the MPORS; 336 of those persons retired above the rank of patrolman and would be eligible for an average monthly increase of $132/month beginning July 1, 1995. Applying currently adopted mortality rate projections (.58%), 334 will receive the benefit increase in FY96 and 332 will receive the benefit increase in FY97.
2. The supplemental benefit increase represents an increase to the MPORS unfunded liabilities. The actuarial cost of amortizing the new unfunded liabilities over 30 years is an additional 1.88% of total compensation of active MPORS members. The actuarially required funding to amortize these liabilities is provided from the following dedicated revenue sources:

City employer contributions	1.04%
Insurance premium tax contributions	0.84%

3. The net **actuarial impact** to the MPORS pension fund consisting of increased employer and employee contributions and investment earnings thereon, netted against the costs of amortizing these unfunded liabilities over 30 years, is $-0-.
4. Increased dedication of revenues from the insurance premium tax directly offset revenues to the state general fund. Available funds are invested in the short-term investment pool (STIP). It is assumed that STIP will yield a 3% annual return in each year of the next biennium.
5. On June 30, 1994, there were 480 active members of the MPORS with a total annual payroll of $13,485,608. The average salary of MPORS members was $28,095. Over the past five years the average MPORS member's salary has increased by an average annual rate of 6%. It is assumed that average salaries will increase by 3% each year ($13,485,608 x 1.03 x 1.03 = $14,306,882 (FY96); $14,306,882 x 1.03 = $14,736,088 (FY97)).

FISCAL IMPACT:

	FY96 Difference	FY97 Difference
Expenditures:		
State Auditor's Office - Statutory		
Local Assistance	120,178	123,783
Funding:		
Police/Fire Retirement Fund (02)	120,178	123,783
MPORS Pension Trust Fund:		
Benefits	529,056	525,888
Funding:		
Pension Trust Fund (09)	529,056	525,888

(continued)

Dave Lewis 1-28-97
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Steve Doherty 1/3/95
STEVE DOHERTY, PRIMARY SPONSOR DATE

Fiscal Note for SB0221, as introduced

SB 221

Revenues:	FY96 Difference	FY97 Difference
General Fund (01):		
Insurance premium tax	(120,178)	(123,783)
Investment earnings (STIP)	(1,803)	(1,857)
Total	(121,981)	(125,640)
Police/Fire Retirement Fund (02):		
Insurance premium tax	120,178	123,783
MPORS Pension Trust Fund (09):		
City employer contributions	148,792	153,255
Insurance premium tax contributions	120,178	123,783
Investment income	(10,403)	(31,593)
Total	258,567	245,445
Net Impact:		
General Fund Cost (01)	(121,981)	(125,640)
Police/Fire Retirement Fund (02)	0	0
MPORS Pension Trust Fund (09)	(270,489)	(280,443)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
Expenditures by certain cities will be increased over the 30 year contribution period. The impact during the next biennium is projected to be:

	FY 1996	FY 1997
Cities covered by MPORS*	148,792	153,255

*Increased contributions for cities covered by MPORS would average $310/active police officer in FY96 and $320/active police officer in FY97. These amounts will increase in the future at the same rate of increase as salaries of active members.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:
While this is a permanent increase for certain retirees, employer and state contributions would be increased for 30 years to pay for the benefits.

TECHNICAL NOTES:
This bill **must** be coordinated with HB268. If both bills pass, the employer, employee, and state contributions will need to be increased by an amount which is **more** than the sum of the increases contained in the two bills. The actuarial costs of the benefits provided by HB268 will increase due to the passage of this proposal.

(Continued)

DEDICATION OF REVENUE:

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (Please explain)

The additional dedication of revenue to MPORS is for the purpose of amortizing a portion of the costs of a one-time permanent increase in benefits for certain retirees. Those retirees do not pay into the system. Active members can not pay for any portion of these increases. Employers generally are required to fund such increases. The dedication of insurance premium tax revenue is a direct subsidy to the cities employing police officers who are members of the MPORS.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
A dedication of revenue directly from the General Fund to the retirement system is not any better since retirement system funding must be fixed and could not be part of the appropriations process.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program/activity that is intended? _____ Yes __x__ No (if no, explain)

It can be argued that having a professional police force reduces insurance premiums and thereby benefits the state as a whole. However, it is hard to make the argument that this specific proposal in any way adds to the potential that the existing police force will be maintained at current levels or improved because of the one-time benefit increase granted to certain retirees. Sufficient funding exists in the state's insurance premium tax fund to fund the state contributions required in this legislation.

d) Does the need for this state special revenue provision still exist? __X__ Yes _____ No (Explain)
As long as the state is going to underwrite costs of public pension plans for local government employees, this is as good a revenue source (actually better) than any.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please explain)

Since retirement system contributions are a fixed budget expense and are not separately budgeted as a part of the appropriation process, it really doesn't affect the legislature's ability to do any of those things. Once the benefits are promised, the funding must follow. While it would be possible to require cities to take on more of the funding requirements for their employees' pensions, it would be politically infeasible to increase the burden on the cities once it has been accepted by the state. In essence, if the legislature does not scrutinize their actions at the time initial contribution increases are promised, they won't be able to reduce the contribution levels in the future, no matter where the money comes from.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please explain)
Yes, both legislative and constitutional. Both state and federal laws require sufficient and guaranteed contributions to the pension plans.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
Does not make a difference where the required contributions come from as long as the funding source is both dedicated and adequate to meet the increasing (due to increasing salaries) funding requirements.

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