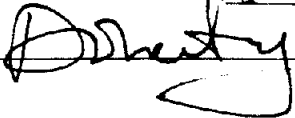


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INTRODUCED BY SENATE BILL NO. 363  


A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING AN AD HOC BENEFIT INCREASE FOR CERTAIN RETIRED MEMBERS OF THE FIREFIGHTERS' UNIFIED RETIREMENT SYSTEM; INCREASING STATE CONTRIBUTIONS FROM THE INSURANCE PREMIUM TAX TO FUND THE INCREASE; AMENDING SECTION 19-13-604, MCA; AND PROVIDING AN EFFECTIVE DATE."

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

NEW SECTION. **Section 1. Ad hoc cost-of-living increase.** A member of the retirement system who retired on or before June 30, 1990, or the member's beneficiary is entitled to a 10% increase in the monthly service, disability, or survivorship benefit paid to the member or the member's beneficiary.

**Section 2.** Section 19-13-604, MCA, is amended to read:

**"19-13-604. State contribution.** The state shall make its contributions through the state auditor from the premium taxes on the insurance risks enumerated in 19-18-512. These payments must be made annually to the pension trust fund after the end of each fiscal year but no later than November 1 from the gross premium taxes after deduction for cancellations and returned premiums. The division shall notify the auditor of the annual compensation, excluding overtime, holiday payments, shift differential payments, compensatory time payments, and payments in lieu of sick leave, paid to all active members during the preceding year. The state's contribution is ~~23.27%~~ 25.27% of this total compensation effective July 1, 1991. As soon as practicable after receipt of the state contribution, the division shall deposit it in the pension trust fund."

NEW SECTION. **Section 3. Codification instruction.** [Section 1] is intended to be codified as an integral part of Title 19, chapter 13, part 10, and the provisions of Title 19, chapter 13, part 10, apply to [section 1].

NEW SECTION. **Section 4. Effective date.** [This act] is effective July 1, 1995.

-END-

- 1 -

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0363, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

An act providing an ad hoc benefit increase for certain retired members of the firefighters' unified retirement system; increasing state contributions from the insurance premium tax to fund the increase.

ASSUMPTIONS:

1. As of July 1, 1994, there were 384 members of the FURS who retired on or before June 1, 1990, who would be eligible for an average monthly increase of \$100/month beginning July 1, 1995.
2. On June 30, 1994, there were 412 active members of the FURS, with a total annual payroll of \$12,232,143. Over the past 5 years, the average FURS member's salary has increased by an average annual rate of 4.9%; FURS covered payroll is projected to increase by an average 2.5% each year in the future.
3. The state contribution to FURS from insurance premium tax revenues would increase by 2% of covered payroll, reducing revenues deposited to the state general fund by a like amount plus STIP earnings.

FISCAL IMPACT:

<u>Expenditures:</u>	<u>FY 1996</u>	<u>FY 1997</u>
FURS Benefit Payments	\$458,400	\$456,000
<u>Revenues:</u>		
Insurance Premium Tax (01)	(\$257,028)	(\$263,454)
<u>Net Impact on Balances:</u>		
General Fund (Cost) (01)	(264,739)	(271,358)
Pension Trust Fund (Cost)	(219,708)	(228,363)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

None

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

This permanent increase for certain retirees will require a state increase in contributions for 30 years to pay for the unfunded liabilities created. The actuarially required increase in contributions to fund a 10% ad hoc benefit increase is estimated at 1.52% of FURS payroll. Insofar as SB363 would increase contributions by 2% of FURS payroll, the effect would be to reduce the period of time required to amortize FURS unfunded liabilities.

TECHNICAL NOTES:

SB363 should be coordinated with other proposed legislation if two or more such bills are enacted (HB268 and SB357). The combined impact of two or more of these three bills would be significantly different than each bill by itself.

(Continued)

Dave Lewis 2-16-95  
DAVE LEWIS, BUDGET DIRECTOR      DATE  
Office of Budget and Program Planning

Steve Doherty 2/16/95  
STEVE DOHERTY, PRIMARY SPONSOR      DATE

Fiscal Note for SB0363, as introduced  
**SB 363**

(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 FURS 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 FURS.

- 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  No (if no, explain)

It can be argued that having a professional fire department reduces insurance premiums and thereby benefits the state, as a whole. However, it is hard to make the argument that this specific proposal adds to the potential that the existing fire fighting 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 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?  Yes  No  
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?

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.