



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Pension Fund Fiscal Note 2017 Biennium

**Bill #** HB0228

**Title:** Increase coal board funding until June 30, 2019

**Primary Sponsor:** Berry, Tom

**Status:** As Introduced

**Retirement Systems Affected:**   
 Teachers                     
 Public Employees                     
 Highway Patrol                     
 Police  
 Sheriffs                             
 Firefighters                     
 Volunteer Firefighters                     
 Game Wardens                     
 Judges

Check the box if "Yes".

- Has this legislation been reviewed by the legislative interim committee?
- Has the cost of this legislation been calculated by the system's actuary?
- Does this legislation include full funding for any benefit revisions?

PERS	July 1, 2014 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$6,177,504,549	\$6,177,504,549	\$0
Present Value of Actuarial Assets	\$4,595,805,330	\$4,595,805,330	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,581,699,219	\$1,581,699,219	\$0
Amortization Period (years) of UAAL	29.30	29.30	0.00
Change in normal costs	11.63%	11.63%	0.00%

PERS	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016	FY 2018 July 1, 2017	FY 2019 July 1, 2018
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%	7.90%
State & Univ. Contribution Rate	8.27%	8.37%	8.47%	8.57%	8.67%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Gov Contribution Rate	8.17%	8.27%	8.37%	8.47%	8.57%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
State Contribution Rate	7.90%	8.00%	8.10%	8.20%	8.30%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
<b>TOTAL Contribution Rate</b>	<b>16.17%</b>	<b>16.27%</b>	<b>16.37%</b>	<b>16.47%</b>	<b>16.57%</b>
 Coal Tax	 3.09%	 2.92%	 2.81%	 2.73%	 2.85%
	19.26%	19.19%	19.18%	19.20%	19.42%

## FISCAL SUMMARY

	<b>FY 2016 Difference</b>	<b>FY 2017 Difference</b>	<b>FY 2018 Difference</b>	<b>FY 2019 Difference</b>
<b>Expenditures:</b>				
General Fund	(\$1,730,488)	(\$1,783,935)	(\$1,789,287)	(\$1,844,755)
State Special Revenue	\$1,730,488	\$1,783,935	\$1,789,287	\$1,844,755
Other	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$1,730,488)	(\$1,783,935)	(\$1,789,287)	(\$1,844,755)
State Special Revenue	\$1,730,488	\$1,783,935	\$1,789,287	\$1,844,755
Other - PERS	(\$1,730,488)	(\$1,783,935)	(\$1,789,287)	(\$1,844,755)
<b>Net Impact-General Fund Balance:</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Description of fiscal impact:** HB 228 increases the percentage of coal severance tax revenue going to the coal natural resources special revenue account from 2.9% to 5.8% for the period July 1, 2015 through June 30, 2019. The amount distributed to the coal natural resources account would increase by \$1.730 million in FY 2016 and by \$1.784 million in FY 2017, and would increase in each year thereafter until the bill sunsets in FY 2020. The distribution of coal severance tax revenue to the general fund would decrease by an equal amount. HB 228 would re-allocate revenues from the coal severance tax such that the Public Employees’ Retirement System would receive lower payments, commensurate with the reduction of general fund revenue.

## FISCAL ANALYSIS

**Assumptions:**

**Public Employees’ Retirement Systems**

1. The calculations are based upon the data, actuarial methods and assumptions as were used in the actuarial valuation as of June 30, 2014.
2. The actual results are dependent upon future experience conforming to the assumptions.
3. The number of active plan members will remain constant.
4. Total wage growth is assumed to increase by 4%.
5. The actuarial assumed rate of return is 7.75%.
6. The fiscal impact presented assumes this is the only amendment being considered.
7. There have been no adjustments for actuarial gains and losses or for changes in membership or financial data since the last valuation.
8. Projections of coal tax severance revenues, and corresponding payments to the pension system, are based upon information contained in HJ 2 for FY 2016 and FY 2017, and OBPP growth rates for FY 2018 and FY 2019.
9. The effect of HB 228 would be to extend the estimated date at which the temporary contributions to PERS would cease from January 1, 2020 to January 1, 2021.
10. HB 228 would have a slight positive effect on the long term funded status of PERS since the lower coal severance tax payment would be more than offset by the one additional year of temporary contributions; however, future actuarial experience of PERS will affect the date at which these temporary contributions would cease and it is possible that there would be no differences in this date between current law and as

implemented in HB 228. In such case, the effect on the long term funded status of PERS would be slightly negative.

**Department of Revenue**

11. The coal natural resource account is administered by the coal board. The purpose of the account is to provide funding for local projects in communities affected by coal development.
12. Under current law, 2.9% of coal severance tax revenue is allocated to the coal natural resource account. This bill would temporarily increase the allocation to 5.8%, for coal produced in FY 2016 through FY 2019.
13. The following table shows projected coal severance tax revenue, the amount allocated to the coal natural resource account by this bill, the amount allocated to the account under current law, and the difference. The numbers for total coal severance tax revenue come from HJ 2 assumptions for FY 2016 and FY 2017, and OBPP’s growth rates for coal severance tax revenue for FY 2018 and FY 2019.

Fiscal Year	Total Coal Severance Tax	Revenue to Coal Natural Resource Account		
		HB228, 5.8%	Current Law, 2.9%	Difference
2016	\$59,672,000	\$3,460,976	\$1,730,488	\$1,730,488
2017	\$61,515,000	\$3,567,870	\$1,783,935	\$1,783,935
2018	\$61,699,545	\$3,578,574	\$1,789,287	\$1,789,287
2019	\$63,612,231	\$3,689,509	\$1,844,755	\$1,844,755

14. Revenue to the general fund would be reduced by the additional amount allocated to the coal natural resource account each year.
15. This bill would result in minimal costs in FY 2016 and again in FY 2019 for the department to make changes to the accounting system. These costs would be absorbed by the department.
16. This bill is effective July 1, 2015.

**Department of Commerce**

17. During the 2013 biennium, the Coal Board awarded 56 grants to 16 eligible governmental entities to address impacts from coal development. To date, during the 2015 biennium, the Coal Board has awarded 37 grants to 21 eligible governmental entities. Based on the average grant awarded by the Coal Board, revenue flows under current law, and after program administration expenses are deducted, this bill would result in the award of approximately 30 additional grants to local governments in coal-impacted areas in the 2017 biennium, and approximately 31 additional grants in the 2019 biennium.
18. The additional funds could be managed by existing Coal Board staff within the Department of Commerce.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
SA to PERS	\$ (1,730,488)	\$ (1,783,935)	\$ (1,789,287)	\$ (1,844,755)
Grants	\$ 1,730,488	\$ 1,783,935	\$ 1,789,287	\$ 1,844,755
<b>TOTAL Expenditures</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$ (1,730,488)	\$ (1,783,935)	\$ (1,789,287)	\$ (1,844,755)
State Special Revenue (02)	\$ 1,730,488	\$ 1,783,935	\$ 1,789,287	\$ 1,844,755
Other	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b><u>Revenues:</u></b>				
General Fund (01)	\$ (1,730,488)	\$ (1,783,935)	\$ (1,789,287)	\$ (1,844,755)
State Special Revenue (02)	\$ 1,730,488	\$ 1,783,935	\$ 1,789,287	\$ 1,844,755
Other PERS	\$ (1,730,000)	\$ (1,784,000)	\$ (1,789,000)	\$ (1,845,000)
<b>TOTAL Revenues</b>	<u>\$ (1,730,000)</u>	<u>\$ (1,784,000)</u>	<u>\$ (1,789,000)</u>	<u>\$ (1,845,000)</u>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Other - PERS	\$ (1,730,000)	\$ (1,784,000)	\$ (1,789,000)	\$ (1,845,000)

**Effect on Local Governments:**

1. The effect of HB228 could extend the estimated date at which the temporary contributions to PERS would cease from January 1, 2020 to January 1, 2021; however, future actuarial experience of PERS will affect the date at which these temporary contributions would cease and it is possible that there would be no differences in this date between current law and as implemented in HB228.

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Sponsor's Initials

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Date

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Budget Director's Initials

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Date