



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Pension Fund Fiscal Note 2017 Biennium

**Bill #** HB0632

**Title:** Create Coal Train Payment for counties

**Primary Sponsor:** Schwaderer, Nicholas

**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?

	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	2.78%	2.61%	2.74%	2.81%	2.74%
	18.95%	18.88%	19.11%	19.28%	19.31%

## FISCAL SUMMARY

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$550,000	\$550,000
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$550,000	\$550,000	\$550,000	\$550,000
Other - PERS	(\$550,000)	(\$550,000)	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>\$0</u>	<u>(\$550,000)</u>	<u>(\$550,000)</u>

**Description of fiscal impact:** HB 632 creates an annual coal train payment to counties of \$550,000, which is statutorily appropriated from the interest income of the coal severance tax permanent fund. The payment would be proportional to the number of coal trains passing through the county annually. The Department of Commerce would calculate the proportional payments for the counties each year. HB 632 would reallocate payments from the coal severance tax such that PERS would receive lower payments in future years than would otherwise have been made in the absence of the bill.

## FISCAL ANALYSIS

**Assumptions:**

**Public Employees Retirement Board**

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 severance tax payments are estimated to be \$0.55 million lower in fiscal years 2016 and 2017 and then \$0.55 million lower in all future fiscal years starting with fiscal year 2020.
9. Results of actuary study are based on the June 30, 2014 actuarial valuation but modified for more recent projections of coal severance tax payments under current law.
10. Over a 25 year period, HB632 is expected to lower the funded ratios by less than 0.2%.
11. Over a 25 year period, HB632 is expected to increase the amortization period for the unfunded actuarial liability by about 0.2 years.
12. HB632 would not be expected to change the estimated date at which the temporary contributions to PERS would cease.

**Department of Revenue**

13. HB 632 creates an annual coal train payment for counties each year.

14. This bill creates a statutory appropriation of the interest income from the coal severance tax permanent fund of \$550,000 each year. This money would be credited to the Department of Commerce each fiscal year.
15. The Department of Commerce would be required to calculate the payment for each county, as proportional to the number of coal trains that pass through the county on an annual basis.
16. Using HJ 2 figures and OBPP’s extrapolations of those figures for total coal trust interest for FY 2016 through FY 2019, in some years the \$550,000 would come at a loss to the public employees’ retirement system benefit plan. In other years it would come at a loss to the general fund.
17. This fiscal note assumes that the legislative finance committee will determine that the public employees’ retirement board has provided a sufficient report each fiscal year, as outlined in 15-35-108(9)(c), MCA.
18. The following table shows the estimated impact to the distribution of coal trust interest in FY 2016 from this bill.

	2016 Current Law	2016 Proposed Law	2016 Difference
Coal Trust Interest	\$19,849,000	\$19,849,000	\$0
Cooperative Development Center	\$65,000	\$65,000	\$0
Growth through Agriculture	\$625,000	\$625,000	\$0
Research and Commercialization	\$1,275,000	\$1,275,000	\$0
DOC Small Business Development Center	\$125,000	\$125,000	\$0
DOC Small Business Innovative Research	\$50,000	\$50,000	\$0
DOC Certified Regional Development Corps	\$425,000	\$425,000	\$0
DOC Manufacturing Extension Center	\$200,000	\$200,000	\$0
DOC Export Trade Enhancement	\$300,000	\$300,000	\$0
Coal Train Payments to Counties	\$0	\$550,000	\$550,000
PERS	\$16,784,000	\$16,234,000	(\$550,000)
General Fund	\$0	\$0	\$0

19. The following table shows the estimated impact from this bill in FY 2017.

	2017 Current Law	2017 Proposed Law	2017 Difference
Coal Trust Interest	\$22,491,000	\$22,491,000	\$0
Cooperative Development Center	\$65,000	\$65,000	\$0
Growth through Agriculture	\$625,000	\$625,000	\$0
Research and Commercialization	\$1,275,000	\$1,275,000	\$0
DOC Small Business Development Center	\$125,000	\$125,000	\$0
DOC Small Business Innovative Research	\$50,000	\$50,000	\$0
DOC Certified Regional Development Corps	\$425,000	\$425,000	\$0
DOC Manufacturing Extension Center	\$200,000	\$200,000	\$0
DOC Export Trade Enhancement	\$300,000	\$300,000	\$0
Coal Train Payments to Counties	\$0	\$550,000	\$550,000
PERS	\$19,426,000	\$18,876,000	(\$550,000)
General Fund	\$0	\$0	\$0

20. The following table shows the estimated impact from this bill in FY 2018.

	2018 Current Law	2018 Proposed Law	2018 Difference
Coal Trust Interest	\$30,441,000	\$30,441,000	\$0
Cooperative Development Center	\$65,000	\$65,000	\$0
Growth through Agriculture	\$625,000	\$625,000	\$0
Research and Commercialization	\$1,275,000	\$1,275,000	\$0
DOC Small Business Development Center	\$125,000	\$125,000	\$0
DOC Small Business Innovative Research	\$50,000	\$50,000	\$0
DOC Certified Regional Development Corps	\$425,000	\$425,000	\$0
DOC Manufacturing Extension Center	\$200,000	\$200,000	\$0
DOC Export Trade Enhancement	\$300,000	\$300,000	\$0
Coal Train Payments to Counties	\$0	\$550,000	\$550,000
PERS	\$21,000,000	\$21,000,000	\$0
General Fund	\$6,376,000	\$5,826,000	(\$550,000)

21. The following table shows the estimated impact from this bill in FY 2019.

	2019 Current Law	2019 Proposed Law	2019 Difference
Coal Trust Interest	\$31,153,000	\$31,153,000	\$0
Cooperative Development Center	\$65,000	\$65,000	\$0
Growth through Agriculture	\$625,000	\$625,000	\$0
Research and Commercialization	\$1,275,000	\$1,275,000	\$0
DOC Small Business Development Center	\$125,000	\$125,000	\$0
DOC Small Business Innovative Research	\$50,000	\$50,000	\$0
DOC Certified Regional Development Corps	\$425,000	\$425,000	\$0
DOC Manufacturing Extension Center	\$200,000	\$200,000	\$0
DOC Export Trade Enhancement	\$300,000	\$300,000	\$0
Coal Train Payments to Counties	\$0	\$550,000	\$550,000
PERS	\$21,000,000	\$21,000,000	\$0
General Fund	\$7,088,000	\$6,538,000	(\$550,000)

22. This bill is effective July 1, 2015.

**Department of Commerce**

23. Section 1 of the bill provides for an annual statutory appropriation of \$550,000 for coal train payments to counties. The annual coal train payment for each county is proportional to the number of coal trains that pass through the county on an annual basis. The DOC is required to calculate the counties payment after the completion of each fiscal year and remit said payment by July 30 of each fiscal year. Please see the technical notes below.

	<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>				
Transfers	\$0	\$0	\$550,000	\$550,000
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$0</b>	<b>\$550,000</b>	<b>\$550,000</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$550,000	\$550,000
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$0</b>	<b>\$550,000</b>	<b>\$550,000</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$550,000	\$550,000	\$550,000	\$550,000
Other - PERS	(\$550,000)	(\$550,000)	\$0	\$0
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>\$0</b>	<b>\$550,000</b>	<b>\$550,000</b>

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

General Fund (01)	\$0	\$0	(\$550,000)	(\$550,000)
State Special Revenue (02)	\$550,000	\$550,000	\$550,000	\$550,000
Other - PERS	(\$550,000)	(\$550,000)	\$0	\$0

**Effect on Local Governments:**

1. Counties which have coal train traffic would receive an annual payment based on the number of coal trains passing through the county each year.

**Long-Term Impacts:**

1. Starting in FY 2020 and continuing indefinitely, \$550,000 would be diverted from general fund revenue to fund the coal train payments to counties.

**Technical Notes:**

1. This bill does not define coal train and thus it is unclear as to what constitutes a coal train for the purposes of the proportional calculation of the payments to counties as required in the bill. Nor does the bill address or define how returning trains that may be exclusively hailing empty coal cars, or as little as one rail car, factor into the proportional calculation of the county payments required in the bill.
2. Additionally, the Department of Commerce is unsure as to where statistical information that details specific county train traffic (by commodity) on an annual basis in Montana might be found. Without said statistical information an accurate proportion calculation of the payments to counties as required in the bill is problematic.

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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*