SB 96 - The legislation reduces the taxes assessed on class eight business equipment by providing a tax rate of 1.5% on the first $10 million of taxable market value and 3% for all taxable market value in excess of $10 million. It also exempts the first $250,000 in market value of this property owned by a taxpayer, beginning in TY 2014. Reimbursement through a transfer of general fund is provided to the university system for loss of the 6-mill levy revenue. The legislation is effective on passage and approval and applies to property tax years beginning after December 31, 2013.
In addition, the legislature created the potential for the following on-going general fund transfers:

HB 354 – The legislation provides for the potential of the following three new transfers from the general fund to the fire suppression account (money in the account cannot exceed $100 million):

- The transfer of any unexpended and unencumbered balance of the Governor's emergency appropriation at the end of each biennium
- By August 15 following the end of each fiscal year, an amount equal to the balance of unspent general fund appropriated in that year in excess of 0.5% of the total general fund appropriated for that fiscal year, must be transferred ($1.0 million is shown on the chart)
- Certain corporation license tax revenue deposited in the general fund must be transferred in the following manner:
    - By August 15, 2013, funds in excess of $152 million collected for FY 2013
    - By August 15, 2014, funds in excess of $152.2 million collected for FY 2014
    - By August 15, 2015, funds in excess of $157.5 million collected for FY 2015

This legislation is effective on passage and approval.

APPROPRIATIONS BY SOURCE OF AUTHORITY – OTHER LEGISLATION

The legislature approved other legislation that increases general fund by an additional $493.5 million. The following figure illustrates.

Other Appropriation Legislation -- General Fund	
Feed bill	$ 9,231,000
Supplemental appropriations	118,799,000
State employee pay plan	59,100,000
Infrastructure Assistance	103,176,000
Pension Legislation	127,574,000
K-12	48,764,000
Other Bills	$ 26,839,000
Total	$ 493,483,000

BILLS ADDRESSING MAJOR BUDGET ISSUES

SB 175

In comparing K-12 education funding from the 2013 biennium to the 2015 biennium, it is necessary to examine HB 2 in conjunction with SB 175. SB 175 changed school law in a number of ways. The bill:

- Applies statutory inflation - 0.89% in FY 2014 and 2.08% in FY 2015 to per-ANB entitlements only; funding is in HB 2
- Increases the basic entitlements and creates multiple basic entitlements per district
- Creates new data for achievement payment of $10 per ANB in FY 2014, $15 per ANB in FY 2015 and $20 per ANB in FY 2016 and beyond
- Creates a data task force

- o Counts students three times per year compared with two times under previous law
- o Pays state share for anticipated unusual enrollment increases from one year to the next of at least 4% or 40 students
- o Shares excess oil and gas retained by state with districts that have enrollment impacts but no direct oil and gas revenue
- o Starting in FY 2015 creates a natural resource development payment
- o Caps the amount of interest and income in the guarantee account that may be used for direct state aid; 50% of excess I&I is reserved for appropriation in the following session and 50% is distributed to school districts on quality educator basis to be used for maintenance and repairs
- o Allows districts to sell revenue bonds backed by oil and gas revenue
- o Appropriates $25.8 million for aspects of the bill except the change to the basic entitlements
- o Transfers $22.9 million from the state general fund ending fund balance in FY 2013 to a new state special account; half of that is transferred each year to the guarantee account to pay for the increase in the basic entitlement
- o Appropriates $22.3 million in excess oil and gas revenue from a new oil and gas distribution account to pay for districts that are eligible because of oil and gas development impacts but that have no or little oil and gas revenues

A table comparing K-12 education funding between biennia is discussed earlier in this chapter.

PENSION LEGISLATION IMPACTS

Coming into the 2013 legislative session five of Montana's eight public pension systems were experiencing significant funding shortfalls due to a combination of a prolonged period of low investment earnings and the lack of past legislative actions to sufficiently increase state, employee, or employer contribution levels in times of extended economic downturn. In total, the state's public pensions were facing a combined unfunded liability of $4.3 billion with existing employer and employee contributions amortizing about $2.0 billion of the liability, leaving a $2.3 billion shortfall to be addressed by lawmakers if the systems were to be made actuarially sound as required by the Montana Constitution.

As of June 30, 2012, the actuarially-determined Annual Required Contribution (ARC) to amortize the unfunded liabilities for all five troubled systems over a 30-year period was approximately $112 million per year higher than the current level of contributions to the systems. This annual shortfall was projected to increase over $121 million by the beginning of the next biennium.

Legislative proposals

A number of bills were presented to the 2013 Legislature related to pension system reform including proposals by the outgoing Governor, various legislators, Teachers' Retirement System, Public Employees' Retirement System, and various stakeholder groups. Leadership of the 2013 Legislature created a Joint Select Committee on Pensions, and referred all major pension reform legislation to this select committee for hearings and debate. House and Senate State Administration committees participated in a number of joint hearings with the Joint Select Committee on Pensions, in addition to dealing with the balance of the pension bills to be considered by the legislature.

Specifically related to pension legislation were 56 bill draft requests, 35 bills introduced, and ultimately 13 bills approved by the 2013 Legislature and signed by the Governor. The end result of the legislative session was adoption of two major pieces of legislation to fund the two largest systems' liabilities, HB 377 (TRS) and HB 454 (PERS), along with a handful of other smaller bills aimed at pension system tweaks and general housekeeping.

Major pension legislation

Montana's two largest public pension systems, the Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS), are responsible for over 90% of the State's funding shortfall. The 2013 Legislature adopted legislation to fund these two largest systems' liabilities with a combination of state general fund, state and local employer contributions, employee contribution increases, and reducing the automatic inflationary increases in retiree benefits. The annual general fund cost of these proposals is just less than $64 million per year.

HB 377 was adopted to address the Teachers' Retirement System funding shortfall. HB 377 provides for additional funding of $25 million annually from the state general fund, $14.7 million one-time-only from school district retirement reserves, a 1.0% supplemental contribution from active members, and a 1.0% employer supplemental contribution in FY 2014 increasing by 0.1% each year thereafter for 10 years. In addition, HB 377 creates a second tier of benefits for members hired after July 1, 2013, which reduces the employer's normal cost rate, requires members to work longer before they are eligible for benefits, and reduces benefits for most new hires. The total impact to the state general fund as a result of HB 377 is estimated between $27-28 million per year.

In addition to increasing contributions into the system to pay off the unfunded liability, HB 377 has provisions to reduce the automatic inflationary increases in retiree benefits (GABA) in certain circumstances. The legislation requires the TRS Board to suspend up to 1.0% of the 1.5% GABA for both tier 1 and tier 2 members if the system's funded ratio is less than 90%, or if granting full GABA results in the funded ratio being less than 90%.

The Unfunded Actuarial Accrued Liability (UAAL) of TRS is projected to be reduced from "Does Not Amortize" (DNA) to 22.0 years as a result of HB 377.

HB 454 was adopted to address the Public Employees' Retirement system funding shortfall. HB 454 provides additional funding of $15-16 million annually from coal severance tax revenues, $21 million annually from coal trust interest, a 1% supplemental contribution from active members with hire dates prior to July 1, 2011, and a 1.0% employer supplemental contribution in FY 2014 increasing by 0.1% each year thereafter for 10 years. The total impact to the state general fund as a result of HB 454 is estimated between $36-37 million per year.

In addition to increasing contributions into the system to pay off the unfunded liability, HB 454 permanently revises the GABA for active and retired members to a maximum of 1.5%, with reductions below 1.5% in certain circumstances. If the systems funded ratio is less than 90% the GABA would be reduced by 0.1% for every 2% below the 90% funded level; and if the amortization period is 40 years or greater the GABA would be reduced to 0.0%.

The Unfunded Actuarial Accrued Liability (UAAL) of PERS is projected to be reduced from "Does Not Amortize" (DNA) to 15.2 years as a result of HB 454.

Other pension legislation

A number of other bills were passed which were intended to provide minor system improvements to various public employee retirement systems. Although a couple of the bills closed loopholes that may decrease future system liabilities, generally they are estimated to have little or no immediate fiscal impact and are more "housekeeping" in nature. Following is a listing of those bills, along with the bill's short title that generally describes the bill's purpose or objective:

- HB 53– Revise State Administration and Veteran Affairs statutory duties
- HB 54– Revise Teachers' Retirement System administrative and tax qualification laws
- HB 78– Clarify break in service requirements for postretirement employment under TRS
- HB 91– Modify and expand public employee 457 deferred compensation program
- HB 95– Require contributions on working retiree compensation
- HB 97– Cap highest/final average compensation in MPERA retirement systems
- HB 105– Generally revise MPERA retirement system laws concerning plan administration
- HB 320– Change name of optional retirement system
- HB 461– Increase pension for certain volunteer firefighters
- SB 245– Revise reference to financial investment by fire relief associations

What will future legislatures face?

The 2013 legislative session made significant strides towards actuarially funding the state's two major pension systems through a combination of increasing contributions into the system, decreasing future benefits to be paid from the system, and changing pension offerings to new employees. Based upon analysis provided by the system actuaries, both TRS and PERS are projected to be on the path of actuarial soundness. Additionally, provisions within the adopted legislation related to GABA adjustments provide a long-term solution that positions the pension systems to reasonably manage investment risks moving forward – so that the systems can maintain better financial footing by reducing the likelihood of insolvency reoccurring.

Future legislatures, along with interim SAVA and LFC, will have the task of continuing to monitor the financial health of all eight state pension systems and continue to verify and improve upon the work done by the 2013 Legislature.

HB 13 – STATE EMPLOYEE PAY PLAN

The legislature appropriated $59.1 million general fund ($115.5 million total funds) in the 2015 biennium for a state employee pay plan. The plan consists of three parts:

1) An increase in the base pay of each state employee;
2) An increased insurance contribution; and
3) Contingency funds for both the executive and legislative branches to be used when an agency cannot meet its vacancy savings requirement.

The following shows the total biennial appropriations by component of the pay plan.

HB 13 by Component
2015 Biennium

Component	General Fund	State Special	Federal Special	Proprietary	Total Funds
Pay Increase	$42,001,497	$19,867,804	$15,990,445	$7,150,943	$85,010,689
Benefits Contribution Increase	15,998,503	7,554,708	4,953,297	172,847	28,679,355
Contingency Funds	1,100,000	600,000	125,000	25,000	1,850,000
Total	$59,100,000	$28,022,512	$21,068,742	$7,348,790	$115,540,044

Instead of prescribing a set percentage of salary increase as proposed in the Governor's budget, HB 13 provided the executive, judicial, and legislative branches the authority to determine the amount of each employee's increase with "particular attention to the lower pay bands and those who did not receive a base pay increase" since July 1, 2011. In addition, the legislature increased the state's monthly contribution for employee health insurance premiums from $733 to $806 starting in July 2013 for university system employees and January 2014 for other state employees, and $887 for the following year.

The following shows appropriations by funding source and recipient.

HB 13 by Funding Type and Entity 2015 Biennium					
		---2015 Biennium ---			
Entity	General Fund	State Special	Federal	Proprietary	Total
Legislative Branch	$1,206,510	$195,320	$0	$0	$1,401,830
Consumer Counsel	0	70,215	0	0	70,215
Judicial Branch	3,220,459	187,881	6,829	0	3,415,169
Executive Branch	30,000,442	26,955,020	20,338,046	7,314,638	84,608,146
University System	23,572,589	14,076	598,867	9,152	24,194,684
Appropriations for Pay and Insurance	$58,000,000	$27,422,512	$20,943,742	$7,323,789	$113,690,044
Contingency Funds	$1,100,000	$600,000	$125,000	$25,000	$1,850,000
Total	$59,100,000	$28,022,512	$21,068,742	$7,348,789	$115,540,043

The legislation also requires that future compensation plans for state employees be based on an analysis and comparison of the municipal and state government labor markets in North Dakota, South Dakota, Idaho and Wyoming and mandates the Department of Administration to conduct the market comparison and to provide its analysis to the Office of Budget and Program Planning as a part of preparing the state budget.

The following link includes a table that shows the appropriation by year, by recipient:
www.leg.mt.gov/content/Publications/fiscal/FR-2015/Additional-Data-Tables/HB13-Costs.pdf

WILDFIRE COSTS

Montana had a severe 2012-2013 fire season. As a result, a large supplemental was appropriated to pay the fire suppression costs determined to be the responsibility of the state. The following figure shows the total current and projected fire suppression costs to the end of FY 2013, and how those costs were funded. As shown, the total is $60.3 million, of which all but $10.0 million is the responsibility of the state.

Fire Suppression Costs and Sources of Funding FY 2013	
Total Actual and Projected Fire Costs	FY 2013
Other Parties Responsibility	$10,006,875
State Responsibility	50,251,567
Total	$60,258,442
Method of Funding State Responsibility	
Fire Suppression Fund*	4,100,000
Governor's Emergency Fund	10,368,145
Supplemental Appropriation**	35,783,422
Total	$50,251,567

*Total amount available in FY 2013 prior to replenishment by HB 354.
**Total appropriation in HB 3 was $50 million, with the additional funds transferred to the fire suppression fund in FY 2014.

- The legislature took two major actions to address future fire costs:
- Appropriated more general fund for fire suppression in HB 3 than was necessary to pay current and projected 2013 biennium fire costs, with the unobligated balance transferred to the fire suppression fund. As of this writing, the amount to be transferred is estimated at $14.2 million of the $50 million appropriated in HB 3. It should be noted that as of this writing the remainder of FY 2013 fire costs is estimated, and could be higher
- Enacted HB 354, which transfers the following potential funding sources to the fire suppression fund:
  - Any unencumbered and unexpended funds from the Governor's emergency statutory appropriation at the end of the biennium
  - Any unencumbered and unexpended general fund reversions in excess of 0.5% of total general fund appropriations each fiscal year as long as no reductions are required as provided in MCA 17-7-140
  - Any corporate license tax collected in excess of the revenue estimate each fiscal year through FY 2015

The following table shows each of the funding sources and the anticipated amounts as of May 2013.

Sources of Funding for Fire Suppression Fund
2015 Biennium

Sources	2015 Biennium
Excess Supplemental Appropriation*	$14,216,578
HB 354	
Excess Corporate License over Revenue Estimate	46,900,000
Excess Governor's Emergency Fund	-
Reversions over 0.5%	1,000,000
Total	$62,116,578

*No estimates at this time.

As of this writing, both corporate license tax revenues and reversions appear stronger than estimated during the legislative session. The fire suppression fund is capped at $100 million and statutorily appropriated to the Department of Natural Resources and Conservation.

A further discussion is in the narrative for the Department of Natural Resources and Conservation, located at the following address:
http://www.leg.mt.gov/content/Publications/fiscal/FR-2015/Section%20C/5706-summary.pdf