- 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.