



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2023 Biennium

Bill #	HB0683	Title:	Distribute recreational marijuana revenue to unfunded pension liability
Primary Sponsor:	Mercer, Bill	Status:	As Introduced-Revised

- Retirement Systems Affected:** Teachers Public Employees Highway Patrol Police
- Sheriffs Firefighters Volunteer Firefighters Game Wardens Judges
-
- Significant Local Gov Impact Needs to be included in HB 2 Technical Concerns
- Included in the Executive Budget Significant Long-Term Impacts Dedicated Revenue Form Attached

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, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$8,234,002,983	\$8,234,002,983	\$0
Present Value of Actuarial Assets	\$6,099,398,162	\$6,099,398,162	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$2,134,604,821	\$2,134,604,821	\$0
Amortization Period (years) of UAAL	35.00	26.00	9.00
Change in normal costs	9.81%	9.81%	0.00%

GWPORS	July 1, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$264,744,609	\$264,744,609	\$0
Present Value of Actuarial Assets	\$221,948,510	\$221,948,510	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$42,796,099	\$42,796,099	\$0
Amortization Period (years) of UAAL	40.00	40.00	0.00
Change in normal costs	15.44%	15.44%	0.00%

MPORS	July 1, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$666,098,580	\$666,098,580	\$0
Present Value of Actuarial Assets	\$471,328,235	\$471,328,235	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$194,770,345	\$194,770,345	\$0
Amortization Period (years) of UAAL	16.00	16.00	0.00
Change in normal costs	25.57%	25.57%	0.00%

Fiscal Note Request – As Introduced

(continued)

SRS	July 1, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$493,241,768	\$493,241,768	\$0
Present Value of Actuarial Assets	\$400,719,971	\$400,719,971	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$92,521,797	\$92,521,797	\$0
Amortization Period (years) of UAAL	21.00	21.00	0.00
Change in normal costs	15.77%	15.77%	0.00%

FURS	July 1, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$612,294,224	\$612,294,224	\$0
Present Value of Actuarial Assets	\$499,180,209	\$499,180,209	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$113,114,015	\$113,114,015	\$0
Amortization Period (years) of UAAL	8.00	8.00	0.00
Change in normal costs	24.88%	24.88%	0.00%

VFCA	July 1, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$47,868,436	\$47,868,436	\$0
Present Value of Actuarial Assets	\$41,716,780	\$41,716,780	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$6,151,656	\$6,151,656	\$0
Amortization Period (years) of UAAL	4.00	4.00	0.00
Change in normal costs	0.00%	0.00%	0.00%

PERS	FY 2021 July 1, 2020	FY 2022 July 1, 2021	FY 2023 July 1, 2022	FY 2024 July 1, 2023	FY 2025 July 1, 2024
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%	7.90%
State & MUS Employer Contribution R:	8.87%	8.97%	9.07%	9.17%	9.17%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Govt Contribution Rate	8.77%	8.87%	8.97%	9.07%	9.07%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
School District Contribution Rate	8.50%	8.60%	8.70%	8.80%	8.80%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	16.77%	16.87%	16.97%	17.07%	17.07%

GWPORS	FY 2021 July 1, 2020	FY 2022 July 1, 2021	FY 2023 July 1, 2022	FY 2024 July 1, 2023	FY 2025 July 1, 2024
Employee Contribution Rate	10.56%	10.56%	10.56%	10.56%	10.56%
Employer Contribution Rate	9.00%	10.05%	10.05%	10.05%	10.05%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	19.56%	20.61%	20.61%	20.61%	20.61%

MPORS	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	July 1, 2020	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024
Employee Contribution Rate	9.00%	9.00%	9.00%	9.00%	9.00%
Employer Contribution Rate	14.41%	14.41%	14.41%	14.41%	14.41%
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
TOTAL Contribution Rate	52.78%	52.78%	52.78%	52.78%	52.78%

SRS	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	July 1, 2020	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024
Employee Contribution Rate	10.495%	10.495%	10.495%	10.495%	10.495%
Employer Contribution Rate	13.115%	13.115%	13.115%	13.115%	13.115%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	23.61%	23.61%	23.61%	23.61%	23.61%

FURS	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	July 1, 2020	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024
Employee Contribution Rate	10.70%	10.70%	10.70%	10.70%	10.70%
Employer Contribution Rate	14.36%	14.36%	14.36%	14.36%	14.36%
State Contribution Rate	32.61%	32.61%	32.61%	32.61%	32.61%
TOTAL Contribution Rate	57.67%	57.67%	57.67%	57.67%	57.67%

VFCA	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	July 1, 2020	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024
Employee Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Employer Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%

TEACHERS RETIREMENT SYSTEM

	July 1, 2020 Current System	July 1, 2020 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$6,310,005,000	\$6,310,005,000	\$0
Present Value of Actuarial Assets	\$4,344,045,000	\$4,344,045,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,965,960,000	\$1,965,960,000	\$0
Amortization Period (years) of UAAL	29	23	6
Change in normal costs	0.00%	0.00%	0.00%

	FY 2021 July 1, 2020	FY 2022 July 1, 2021	FY 2023 July 1, 2022	FY 2024 July 1, 2023	FY 2025 July 1, 2024
Employee Contribution Rate	8.15%	8.15%	8.15%	8.15%	8.15%
Employer Contribution Rate	9.17%	9.27%	9.37%	9.47%	9.47%
State Contribution Rate	2.49%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	19.81%	19.91%	20.01%	20.11%	20.11%

FISCAL SUMMARY

	FY 2022 <u>Difference</u>	FY 2023 <u>Difference</u>	FY 2024 <u>Difference</u>	FY 2025 <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$16,936,178	\$39,784,588	\$52,269,194	\$59,344,483
Revenue:				
General Fund - Loss from I-190	(\$1,370,000)	(\$3,560,000)	(\$4,820,000)	(\$5,520,000)
State Special Revenue - AUM Tax (0:	\$1,370,000	\$3,560,000	\$4,820,000	\$5,520,000
State Special Revenue - License Fees	\$3,900,000	\$5,900,000	\$6,400,000	\$6,800,000
Other - State Pension Funds	\$8,690,000	\$33,670,000	\$45,730,000	\$52,510,000

Description of fiscal impact: HB 683 revises laws related to the distribution of adult-use marijuana tax revenue. Under current law (I-190), adult-use marijuana tax revenue goes to the general fund and various state special revenue accounts for the following purposes: wildlife habitat and state parks, local government commerce, veteran services, Medicaid rate increases, and drug addiction treatment. This bill distributes the revenue to several state pension trust funds. A crosswalk from I-190 to HB 683 can be found in Technical Note #1 of this fiscal note.

FISCAL ANALYSIS

Assumptions:

Public Employee Retirement System (PERS)

- The actuary was provided the adult-use marijuana sales and tax revenue estimates for HB 683 by the Department of Revenue that will be allocated to the public retirement systems. They are shown in the table below by fiscal year:

Fiscal Year	Projected Revenue (millions)

2022	\$8.69
2023	\$33.67
2024	\$45.73
2025	\$52.51

- As recommended by Department of Revenue, the actuary assumed the tax revenue will grow by 10% in fiscal year 2026, 5% for fiscal years 2027 to 2030 and 2.5% for fiscal years 2031 and beyond.
- The pension trust funds, and percentages of the marijuana tax revenue distributions are noted below:

Pension Trust Fund	Distribution Percentage
Public Employees’ Retirement System (PERS)	46.95%
Game Wardens’ and Peace Officers’ Retirement System (GWPORS)	0.09%
Firefighters’ Unified Retirement System (FURS)	2.50%
Sheriffs’ Retirement System (SRS)	2.00%
Municipal Police Officers’ Retirement System (MPORS)	4.20%
Volunteer Firefighters’ Compensation Act (VFCA)	0.10%
Teachers Retirement System	43.35%

- The actuary performed these calculations based upon the data, actuarial methods and assumptions used in the Actuarial Valuations as of June 30, 2020 for each of the systems.
- The fiscal impact presented in the report assumes that this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.

Teachers Retirement System (TRS)

- The actuary was provided the adult-use marijuana sales and tax revenue estimates for HB 683 by the Department of Revenue that will be allocated to the public retirement systems. They are shown in the table below by fiscal year:

Fiscal Year	Projected Revenue (millions)
2022	\$8.69
2023	\$33.67
2024	\$45.73
2025	\$52.51

- As recommended by Department of Revenue, the actuary assumed the tax revenue will grow by 10% in fiscal year 2026, 5% for fiscal years 2027 to 2030 and 2.5% for fiscal years 2031 and beyond.
- TRS will receive 43.35% of the remaining amount deposited into the marijuana compensation account after deduction for Department of Revenue administration and enforcement costs.
- The actuary performed these calculations based upon the data, actuarial methods and assumptions used in the Actuarial Valuations as of June 30, 2020 for each of the systems.
- The fiscal impact presented in the report assumes that this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.

Department of Revenue

- HB 683 changes the distribution of adult-use marijuana tax revenue.
- Under current law (I-190), 10.5% of adult-use marijuana tax revenue goes to the general fund with the remainder going to various state special revenue accounts for the following purposes: wildlife habitat and

state parks, local government commerce, veteran services, Medicaid rate increases, and drug addiction treatment.

13. The current law adult-use marijuana revenue estimates and distributions are in the table below.

Current Law I-190 (millions)					
Year	CY Sales	FY Sales	Tax Revenue (20%)	General Fund	
				Revenue (10.5%)	State Special Revenue
2022	\$130.3	\$65.2	\$13.03	\$1.37	\$11.66
2023	\$208.5	\$169.4	\$33.88	\$3.56	\$30.33
2024	\$250.2	\$229.4	\$45.87	\$4.82	\$41.06
2025	\$275.2	\$262.7	\$52.55	\$5.52	\$47.03

14. These estimates were generated using the estimated potential sales in Montana published in a September 2020 report by the University of Montana Bureau of Business and Economic Research as a starting point for the potential demand in calendar year (CY) 2022. A downward adjustment was made for CY 2022 based on initial supply limitations as a result of only current medical marijuana licensees being allowed to sell adult-use marijuana for the first year. Moderate growth rates based on the growth of legal marijuana sales in Washington, Oregon, California, Colorado, Nevada, and Alaska of 60%, 20% and 10% were used to project the annual sales for CY 2023, CY 2024, and CY 2025, respectively. The calendar year sales were then converted to fiscal year (FY) sales and the 20% tax rate was applied.

15. This bill would not change the estimated sales or tax revenue but would change the appropriation to first cover the administrative costs of the department and then the remaining revenue distributed to the following state pension trust funds:

- a. Firefighters’ unified retirement system (2.5%)
- b. Montana state game wardens’ and peace officers’ retirement system (0.9%)
- c. Municipal police officers’ retirement system (4.2%)
- d. Public employees’ retirement system defined benefit trust fund (46.95%)
- e. Sheriffs, retirement system (2%)
- f. Teachers’ retirement system of the state of Montana (43.35%)
- g. Volunteer firefighters’ pension trust fund (0.1%)

16. Under this bill, all adult-use marijuana tax revenue would be deposited in the Marijuana compensation special revenue account and used to cover any remaining administrative costs not covered by the license fee revenue collected by the department. The remaining tax revenue, after all costs are covered, would be appropriated to the state pension trust funds, as listed in the previous assumption. The following table shows the estimated tax revenue (from the table above), license fee revenue, administrative costs, and the remaining revenue to be appropriated the state pension trust funds.

Proposed Law HB 683 (millions)				
FY	Tax Revenue	License Fee Revenue	Administrative Costs	Remaining Revenue to Pension Funds
2022	\$13.03	\$3.90	\$8.25	\$8.69
2023	\$33.88	\$5.90	\$6.11	\$33.67
2024	\$45.87	\$6.40	\$6.54	\$45.73
2025	\$52.55	\$6.80	\$6.83	\$52.51

17. Under this bill, all tax revenue would be classified as state special, so this bill would reduce general fund revenue by \$1.37 million in FY 2022, \$3.56 million in FY 2023, \$4.82 million in FY 2024, and \$5.52 million in FY 2025 and increase state special fund revenue by an equal amount.

Department of Revenue Costs

18. For the purposes of this fiscal note, the following costs are the total costs to implement and administer the Montana Marijuana Regulation and Taxation Act, not the change in costs as a result of this bill relative to current law. This bill does not change any regulatory aspects of the act from current law.
19. The department will create a new marijuana division with the following personnel (FTE) beginning in FY 2022: 1 administrator, 1 bureau chief (increasing to 2 in FY 2023), 2 unit managers, 2 management analysts, 4 licensing specialists, 3 cardholder technicians, 12 investigators, 1 chemist, 2 auditors, 1 compliance officer (beginning January 1, 2022), 1 administrative specialist, 1 paralegal assistant, and 1 education specialist. Additional costs for this division include travel, vehicles, firearms, and phones for investigators.
20. The director's office will add 1 paralegal assistant and 1 administrative law judge (both beginning January 1, 2022), and 1 public relation specialist in FY 2022.
21. The information management collections division within the department will add 1 collections specialist and 2 computer operators beginning in FY 2022.
22. The business and income tax unit within the department will hire 5 new tax examiners with travel in FY 2022.
23. The technology services division within the department will hire 2 computer system analysts beginning in FY 2022 and will have a one-time contracted services cost in FY 2022 of \$3 million to get the new tax type added to the integrated revenue information system and annual costs of \$65,000 for system licensing.
24. The department will also be responsible for a \$40 per month tracking system reporting fee for each provider and providing the tracking tags for each plant and package or product in the seed-to-sale tracking system. Tags are \$0.45 per plant and \$0.25 for a package tag. Total estimated costs for these fees and tags are \$604,600 for FY 2022, \$1,338,800 for FY 2023, \$1,705,900 for FY 2024, and \$1,943,400 for FY 2025.
25. Total estimated costs to the department are \$8,246,178 in FY 2022, \$6,114,588 in FY 2023, \$6,539,194 in FY 2024, and \$6,834,483.
26. It is assumed that these costs will be covered by a combination of the license fee revenue and adult-use marijuana tax revenue, as needed. The license fee revenue under this bill is estimated to be approximately \$3.9 million in FY 2022, \$5.9 million in FY 2023, \$6.4 million in FY 2024, and \$6.8 million in FY 2025.

STATEWIDE TOTALS	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Fiscal Impact:				
FTE	43.50	46.00	46.00	46.00
Expenditures:				
Personal Services	\$3,617,303	\$3,912,374	\$3,962,334	\$4,013,039
Operating Expenses	\$4,628,875	\$2,202,214	\$2,576,860	\$2,821,444
Transfers to Pension Funds	\$8,690,000	\$33,670,000	\$45,730,000	\$52,510,000
TOTAL Expenditures	\$16,936,178	\$39,784,588	\$52,269,194	\$59,344,483
Funding of Expenditures:				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$16,936,178	\$39,784,588	\$52,269,194	\$59,344,483
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$16,936,178	\$39,784,588	\$52,269,194	\$59,344,483
Revenues:				
General Fund - Loss from I-190	(\$1,370,000)	(\$3,560,000)	(\$4,820,000)	(\$5,520,000)
State Special Revenue - AUM Tax (02)	\$1,370,000	\$3,560,000	\$4,820,000	\$5,520,000
State Special Revenue - License Fees (02)	\$3,900,000	\$5,900,000	\$6,400,000	\$6,800,000
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other - State Pension Funds	\$8,690,000	\$33,670,000	\$45,730,000	\$52,510,000
TOTAL Revenues	\$12,590,000	\$39,570,000	\$52,130,000	\$59,310,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	(\$1,370,000)	(\$3,560,000)	(\$4,820,000)	(\$5,520,000)
State Special Revenue (02)	(\$16,936,178)	(\$39,784,588)	(\$52,269,194)	(\$59,344,483)
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other	\$8,690,000	\$33,670,000	\$45,730,000	\$52,510,000

Long-Term Impacts:

1. Increasing the non-employee contribution does not impact the liabilities of each of the systems, however it does provide an additional source of revenue to finance each of the system’s unfunded actuarial accrued liability. The amortization periods of each of the system’s as of June 30, 2020 and the amortization periods as of June 30, 2020 reflecting the additional revenue included in HB 683 are shown in the table below. The revenue noted in HB 683 reduces the amortization periods for each of the systems except for FURS and VFCA.

	Amortization Period	Amortization Period Reflecting HB 683
PERS	35	26
GWPORS	40	29
FURS	8	8
SRS	21	18
MPORS	16	14
VFCA	4	4

Fiscal Note Request – As Introduced

2. Increasing the non-employee contribution does not impact the liabilities of each of the systems, however it does provide an additional source of revenue to finance each of the system’s unfunded actuarial accrued liability. The amortization period as of June 30, 2020 reflecting the additional revenue included in HB 683 is shown in the table below.

	Amortization Period	Amortization Period Reflecting HB 683
TRS	29	23

Technical Notes:

Office of Budget and Program Planning (OBPP)

1. The following table represents the change in revenue allocations between present law as it was passed by the electorate in I-190, and the proposed changes in HB 683:

Present Law I-190 Revenue Collection and Allocation (millions)								
FY	Total Revenue	General Fund 10.5%	Pension Fund Allocation	State Special Revenue Total	FWP SSRs	DPHHS SSRs	Military Affairs SSR	Commerce SSR
2022	\$13.03	\$1.37	\$0.00	\$11.66	\$6.45	\$2.61	\$1.30	\$1.30
2023	\$33.88	\$3.56	\$0.00	\$30.32	\$16.77	\$6.78	\$3.39	\$3.39
2024	\$45.87	\$4.82	\$0.00	\$41.05	\$22.71	\$9.17	\$4.59	\$4.59
2025	\$52.54	\$5.52	\$0.00	\$47.02	\$26.01	\$10.51	\$5.25	\$5.25
Total	\$145.32	\$15.26	\$0.00	\$130.06	\$71.93	\$29.06	\$14.53	\$14.53

HB 683 Revenue Collection and Allocation (millions)								
FY	Total Revenue	General Fund / PERS	Pension Fund Allocation	State Special Revenue Total	FWP SSRs	DPHHS SSRs	Military Affairs SSR	Commerce SSR
2022	\$13.03	\$0.00	\$8.69	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2023	\$33.88	\$0.00	\$33.67	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2024	\$45.87	\$0.00	\$45.73	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2025	\$52.54	\$0.00	\$52.51	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total	\$145.32	\$0.00	\$140.60	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Revenue Impacts of HB 683 (millions)								
FY	Total Revenue	General Fund	Pension Fund Allocation	SSR Total	FWP SSRs	DPHHS SSRs	Military Affairs SSR	Commerce SSR
2022	\$0.00	(\$1.37)	\$8.69	(\$11.66)	(\$6.45)	(\$2.61)	(\$1.30)	(\$1.30)
2023	\$0.00	(\$3.56)	\$33.67	(\$30.32)	(\$16.77)	(\$6.78)	(\$3.39)	(\$3.39)
2024	\$0.00	(\$4.82)	\$45.73	(\$41.05)	(\$22.71)	(\$9.17)	(\$4.59)	(\$4.59)
2025	\$0.00	(\$5.52)	\$52.51	(\$47.02)	(\$26.01)	(\$10.51)	(\$5.25)	(\$5.25)
Total	\$0.00	(\$15.26)	\$140.60	(\$130.06)	(\$71.93)	(\$29.06)	(\$14.53)	(\$14.53)

NOT SIGNED BY SPONSOR

Sponsor's Initials

4/12/21
Date

KA
Budget Director's Initials

4-9-21
Date