



State Administration and Veterans' Affairs Interim Committee

61st Montana Legislature

SENATE MEMBERS

JOE TROPILA--Chair
JOE BALYEAT
LARRY JENT
DAVE LEWIS

HOUSE MEMBERS

GORDON HENDRICK--Vice Chair
TIMOTHY FUREY
PAT INGRAHAM
ROBERT MEHLHOFF

COMMITTEE STAFF

RACHEL WEISS, Research Analyst
DAVID NISS, Staff Attorney
FONG HOM, Secretary

MINUTES

April 22, 2010

Room 137, Capitol Building
Helena, Montana

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

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COMMITTEE MEMBERS PRESENT

SEN. JOE TROPILA, Chair
REP. GORDON HENDRICK, Vice Chair

SEN. JOE BALYEAT
SEN. LARRY JENT
SEN. DAVE LEWIS

REP. TIMOTHY FUREY
REP. PAT INGRAHAM
REP. ROBERT MEHLHOFF

STAFF PRESENT

RACHEL WEISS, Research Analyst
DAVID NISS, Staff Attorney
FONG HOM, Secretary

Visitors and Agenda

Visitors' list, Attachment 1
Agenda, Attachment 2

COMMITTEE ACTION

- The committee accepted the draft Memorandum of Understanding with the Public Employees Retirement Board for actuarial services.

CALL TO ORDER AND ROLL CALL

- 00:01:07 Sen. Tropila called the meeting to order at 8:00 a.m. The committee secretary called roll. Everyone was present.
- 00:02:12 Rachel Weiss, Research Analyst, said that the consultants were delayed in Salt Lake City due to bad weather and will not be giving their presentation at the meeting. She discussed possible meeting dates in May with the consultants.

AGENDA

REPORT ON THE SCHOOL ADMINISTRATORS OF MONTANA CONFERENCE - Rep. Hendrick

- 00:04:40 Rep. Hendrick reported on the School Administrators of Montana conference that he attended on March 22, 2010.

PROPOSALS TO REVISE MONTANA PUBLIC EMPLOYEE RETIREMENT SYSTEMS

- 00:14:00 Ms. Weiss said, by way of introduction, that the committee is required by statute to review proposals to amend the retirement systems. The committee will listen to non-state agency stakeholders and review their proposals. In June, the committee will hear from the Public Employees Retirement Board and the Teachers Retirement System Board regarding their proposals to amend the systems plus various other housekeeping bills.

Association of the Public-Safety Communication Officials, International (APCO) - Susan Bomstad, President of MT Chapter, and Kimberly Burdick, National Executive Council Representative

- 00:15:00 Kimberly Burdick, Communication Manager, Choteau County 911 Center, Fort Benton, distributed and discussed the Association of Public-Safety Communication Officials, International's proposed legislation (**Exhibit 1**).
- 00:21:02 Susan Bomstad, Assistant Manager with 911, Missoula, discussed the issue of risk and liability for cities and counties, as well as additional arguments in favor of the proposal.

Questions

- 00:30:50 REP. INGRAHAM asked Ms. Bomstad to explain what the disadvantages would be to dispatchers who were not transferring into the new system because of longevity. **Ms. Bomstad** said that it is a large payment to go from one system to

the other. It is quite a bit per year and a lot of people don't have that kind of money and would therefore elect to remain in PERS.

00:31:58 REP. FUREY asked if APCO completed a survey regarding job satisfaction. Are there other things that might be causing people to leave? **Ms. Bomstad** said that a myriad of reasons why dispatchers don't stay and that Missoula County has tried incentives for working extra nights or coming in on days off and more money for the job itself. While that has helped, it hasn't solved the problem.

00:43:38 SEN. BALYEAT said that if it is such a great idea to go from 30 years to 20 years and it's going to save enough money to offset what he sees as an increase in retirement costs, why don't you go to 10 years? There should be some direct comparison between giving people 10 years more worth of retirement with 10 years less paid in compared to the retraining costs. **Ms. Bomstad** said that she can't speak to that. She said that the 20 years is no different than the detention officers when they had the issue that they had to go for 30 years before they could retire. They made their case based on the premise that they go through quite a few people. The justification is the same as it was for the detention officers. She said that right now they aren't getting anyone to 20 years even. One third of dispatchers in Missoula County have been there one year or less.

00:45:34 SEN. BALYEAT said that the reason they let the sheriffs, the detention officers and others retire at 20 years instead of 30 years is because of the physical demands of their work. He doesn't see the same constraints on a dispatcher in terms of their ability to do their job at an older age. Could Ms. Bomstad address that? In the written submission of how to fund it, it says, "we propose both an increase in employer contribution and employee contributions." Does that mean the permissive taxes would go up at a local level and that the state would be contributing more as well, and if so, where is that money going to come from? **Ms. Bomstad** said, in response to Sen. Balyeat's first question, while it may not seem physical to him what a dispatcher goes through as they get older and have more years in, it is more difficult to do the job. It is more difficult to work shift work, it is more difficult to deal with the stress. They are not able to get rid of that stress by going to lunch after a particularly stressful call. It builds up within that person and it takes its toll physically, just as it does with the rest of the public safety community. In response to the funding question, it will be just as it was with the detention officers. The employee themselves will be paying more into the system, and the agency that they work for will be paying more into the system. Those costs will be offset by less training costs. The state does contribute that 1/10th of 1% to all of their retirement systems; with PERS, they will no longer have to do that.

- 00:51:23 REP. MEHLHOFF said that there will be a new statewide system will be in place where the dispatcher will have more responsibilities than they've had in the past. Will that make the job easier or more complex, and as far as training goes, and will it be more complex when the new system comes into play statewide? **Ms. Bomstad** said that she isn't qualified on how that will impact dispatchers.
- 00:52:57 REP. HENDRICK said that Ms. Bomstad made comments about their dispatchers leaving before they become vested into the program. Are those dispatchers going to other positions in the larger cities where they may be making more money? Are there any requirements that those people who receive training must stay and put in so many years of service? **Ms. Bomstad** said that they do not have any requirements to make a recipient of training stay for any number of years. In regards to his first comment, some of those smaller agencies do require that they make a commitment for a certain number of years, but she could not attest to that.
- 00:54:49 REP. HENDRICK asked about having a provision available for dispatchers to unwind after a stressful work situation. **Ms. Bomstad** said that they have it available and is usually used for the larger events. It is not used very often for the traditional day to day stresses.
- 00:56:48 REP. HENDRICK asked if smaller communities will lose dispatchers because of budget constraints to the county. **Ms. Bomstad** said that hopefully every agency will be able to afford the extra costs for each employee, for them to go to the Sheriff's Retirement System. The burden is on the employee, if they have been there over ten years, they will have to buy their way into the system or they will have to take less years.
- 01:00:02 SEN. JENT said it is his understanding that dispatchers must be post-certified. Is he correct to assume that at any time a post-certified dispatcher could get a job with another law enforcement agency if they wanted to? **Ms. Bomstad** said that within Montana, yes. She didn't have figures about how many do.
- 01:01:54 SEN. LEWIS said that in most cases, if you have paid for training and then they leave, you are covered because when you hire the new person, they are going to be paid less. There's a savings that you incur with turnover that you can attribute to training. Could Ms. Bomstad comment on that? **Ms. Bomstad** said that she understands what his concern is. If you will look at the spreadsheet from Missoula County, it shows that there are 9 people a year or less and they have the ability to employ 30 people. That's a third and those are people, if we could

save one or two, it's the same as five that we are replacing.

Public Comment

01:06:29 **Roxanne Minnehan, Montana Public Employees Retirement Board**, said MPERB supports this proposal. The impact to the PERS system is minimal because there are so few members. The impact to the Sheriffs' Retirement System is unknown until they have an experienced study to determine after the fact of how this influx of people impacts the Sheriffs' Retirement System. She disclosed that the Sheriffs' Retirement System is not actuarially sound at this point.

Discussion and Questions

01:10:37 REP. INGRAHAM said in TRS, early retirement is putting a drain on the retirement systems. It is time to ascertain where dispatchers fit into the retirement systems. We have to look to the future, and even though public safety jobs in the line of fire are tough, they are still putting a drain on retirement systems. She asked Ms. Minnehan if that has been addressed in the past? **Ms. Minnehan** said that it has not been addressed. PERS will be proposing to increase the average compensation from 3 to 5 years, but not the retirement eligibility age.

01:12:41 SEN. BALYEAT asked about the percentage of employer rate in PERS and in the Sheriffs' Retirement. **Ms. Minnehan** said for PERS, the employer rate is 7.17%, and in Sheriffs' it is 9.825%.

01:13:49 SEN. BALYEAT asked if most of this money was coming from local government. **Ms. Minnehan** said the money comes from the employer and employees. There is no state contribution per se into this system unless the state is the employer.

Public Comment

None.

APPROVAL OF MEMORANDUM OF UNDERSTANDING (MOU) WITH PERB - Rachel Weiss, Research Analyst, LSD

01:18:50 Ms. Weiss discussed the Memorandum of Understanding with Public Employees' Retirement Board for actuarial services.

01:19:35 Roxanne Minnehan said that MPERB reviewed the MOU and they are in agreement with the MOU as written.

Motion

01:21:44 SEN. BALYEAT **moved** to accept draft Memorandum of Understanding with the Public Employees' Retirement Board for actuarial services. The motion **passed**.

RETIREMENT SYSTEM UPDATES ON MARKET VALUE - David Senn, TRS, and Roxanne Minnehan, PERS

01:23:11 Mr. Senn distributed and discussed the letter from Cavanaugh Macdonald Consulting giving their estimated valuation results (**Exhibit 2**) of the Montana Teachers' Retirement System.

Questions

01:26:20 SEN. LEWIS asked if Mr. Senn could give an idea as to where everybody is at as far as the funded ratio on a national scale? **Mr. Senn** said that they were at 80% before they declined or actually closer to 90% before the decline on a national basis. Most plans are down around that 80% or a little lower.

01:29:48 SEN. JENT asked if he was correct in saying that the state would have to come up with twice the amount of \$21 million over a 2-year period to have a funded ratio from 68.7% to 100%. **Mr. Senn** said that the funded ratio would probably not increase to 100% because there would still be an actuarially unfunded liability that would be amortized over the next 30 years. The 3.17% increase will not fund the system 100%. It will only bring the contribution rates up to a level where they can amortize the unfunded liability over 30 years. The unfunded liability is still in the neighborhood of \$1.4 billion.

01:30:51 SEN. JENT said that if our obligation is to pay the unfunded liability over 30 years, we would need \$42 million to do so in the next biennium based on figures that we have on Mr. Senn's chart. **Mr. Senn** said they would have to appropriate at least \$42 million and that would increase every biennium after that, at roughly 4.5%.

01:31:54 REP. HENDRICK asked how is this going to affect the numbers given by Mr. Senn when the schools are laying off teachers. What is this going to do to the system? **Mr. Senn** said that if the schools in the state reduce the number of teachers and administrators, that has two impacts on the retirement system. First they will have fewer members, fewer liabilities because some of those people will withdraw and won't be vested, and that will reduce the liabilities. It will also have an adverse impact on the funding of TRS because the salary number that they are expecting to come in will be less.

01:32:04 SEN. BALYEAT said, as a followup to Sen. Jent's question, if 1% is \$7 million,

3.17% works out to be \$44.5 million per biennium. Did Mr. Senn say that in order to make us actuarially sound that that would require \$44.5 million in the next biennium, and also at least \$44.5 million each biennium after that for the next 30 years? **Mr. Senn** said that that is correct.

SEN. BALYEAT said that if we didn't make any changes to try to reduce the costs on TRS, Mr. Senn is saying that based on the best estimate of what it will be on July 1, in order to keep the system actuarially sound, we would have to make a commitment of over \$700 million? **Mr. Senn** said that if you look at the chart, the projected numbers for July 1, 2010, it shows the unfunded liability at \$1.36 billion. If you are going to pay that on an amortization based like a mortgage, it will cost more over the next 30 years. If you pay \$1.3 billion up front, that is your costs on July 1, 2011.

MARKET VALUES FOR PERS AND SHERIFFS' AND GAME WARDENS' RETIREMENT SYSTEMS

01:40:51 **Roxanne Minnehan, Executive Director, PERS**, distributed and discussed market values on PERS and the Sheriffs' Retirement System and the Game Wardens' Retirement System (**Exhibit 3**).

Questions

01:42:13 SEN. JENT said that when you look at the 2.35% versus the 3.87% as the projected shortfall, how did PERS manage to lose assets between 2009 and 2010? **Ms. Minnehan** said that that is due to the smoothing method. They are taking into account negative earlier investment returns.

Discussion

01:42:51 SEN. JENT said that as policymakers, we are dealing with actuarial techniques and values. We have one system using one assumption and another system using another. To him that sounds irrational.

01:43:00 SEN. LEWIS said that you look at your asset difference between your actuarial valuation of June 30, 2010, is \$3.9 billion and your market value is \$3.5 billion, which is a \$400 million difference. From a policy perspective, we should be talking about whether we would like to see this be closer to what the TRS is doing. It is foolish for us to go along and whistle past the graveyard and ignore this \$400 million problem.

01:43:51 SEN. JENT said that there are some interesting things going on. We have a revenue estimate but we don't have a pension estimate. There is nothing in statute that allows us to say that we are going to rebound over the course of the

biennium and therefore we have an estimate of what these values are going to be on July, 2011.

01:46:17 SEN. LEWIS asked Ms. Minnehan what a 1% of a projected shortfall worth to PERS? **Ms. Minnehan** said it is worth \$10 million.

Public Comment

None.

DISCUSSION ON THE COMMISSIONER OF POLITICAL PRACTICES RESPONSE TO THE SUPREME COURT'S DECISION REGARDING CITIZENS UNITED

01:49:35 **David Niss, Legal Counsel, LSD**, discussed his letter to Commissioner Unsworth requesting that he respond to a series of questions on the possible impacts in Montana of the Supreme Court's decision in Citizens United . He discussed an article that appeared in *The Montana Lawyer* entitled, "Money Flooding into Campaigns for State Judgeships". He said that he would like to distribute copies of this article prior to the Commissioner's presentation.

BREAK

The committee took a break so that Ms. Weiss could see if Commissioner Unsworth might be available to be present at today's meeting instead of tomorrow's meeting. Mr. Niss distributed copies of the article "Money Flooding into Campaigns for State Judgeships" to the committee but did not discuss it.

02:30:30 Sen. Tropila reconvened the meeting at 10:30 a.m.

02:30:54 Ms. Weiss reported that Commissioner Unsworth preferred the Friday agenda and that Buck Consultants was agreeable to the May 19, 2010 date for the next meeting.

RECESS

02:36:23 Sen. Tropila recessed the meeting to reconvene at 8:00 a.m. on April 23, 2010.

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