



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

October 29 and 30, 2009 Meetings

October 29, 2009
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.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side column of the home page, select *Committees*, then *Interim*, and then the appropriate committee.

To view the minutes, locate the meeting date and click on minutes. To hear the audio recording, click on the Real Player icon. Note: You must have Real Player to listen to the audio recording.

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

Visitors' list, Attachment #1.

CALL TO ORDER AND ROLL CALL

00:00:01 Sen. Tropila called the meeting to order at 8:30 a.m. The committee secretary took roll. All members of the committee were present. Rep. Hendrick gave a summary of the October 1, 2009, Conference Call meeting. The minutes of the June 26, 2009, meeting and the October 1, 2009, meeting were unanimously approved.

AGENDA

OFFICE OF THE COMMISSIONER OF POLITICAL PRACTICES - Commissioner Dennis Unsworth

00:05:18 Commissioner Unsworth gave an overview of the Office of the Commissioner of Political Practices' activities. He spoke on the work the office has accomplished regarding the resolutions of formal complaints and the accessibility of getting campaign reports online.

Questions

00:13:14 Sen. Jent asked if Mr. Unsworth had a specific packet or proposals for the committee that would make the enforcement of those Montana laws better?

00:15:38 Rep. Ingraham asked that out of the 18 complaints that were resolved, how many were valid and might have been punitive?

00:18:37 Sen. Tropila asked what kinds of legislation will be before the next Legislature regarding the issues that have been discussed today? Mr. Unsworth said that some of the proposed legislation will deal with rulemaking, the ruling by the 9th Circuit Court regarding the Canyon Ferry Baptist Church issue, and setting a de minimis level for expenditure reporting.

Public Comment

None.

DEPARTMENT OF ADMINISTRATION - Paula Stoll, Administrator,
State Human Resources Division

00:24:43 Ms. Stoll gave a presentation on current and historical compensation of state employees **(Exhibit 1)**.

00:33:21 Ms. Stoll distributed the "Employee Profile January 2009" to the committee **(Exhibit 2)**.

Questions

00:55:50 Rep. Ingraham asked how giving pay increases or bonuses work within the broadband plan? Ms. Stoll said that agencies have the flexibility within that band, depending on their funding and their pay philosophy, to pay the increases or bonuses.

Rep. Ingraham asked what differentiates why employees don't get a promotion to the next step versus giving them money for merits where it appears that it is one and the same, move them up in the broadband rather than giving bonuses to keep them where they are at. Ms. Stoll said she can't answer that because it is up to the individual agencies as to how they design their plan.

00:59:36 Rep. Furey asked how many state employees received the \$450 one-time salary supplement. Ms. Stoll said that it is somewhere between 65% and 70%.

Public Comment

None.

MEA-MFT PRESENTATION - Tom Bilodeau, Research Director

01:02:52 Mr. Bilodeau gave a presentation on teacher compensation in Montana . He distributed a document on teacher salaries over the last generation and health insurance costs **(Exhibit 3)**.

Questions

01:22:46 There was a discussion on finding a solution to the problem of qualified administrators who retire after 25 years of service and then are rehired at the same pay resulting in what some might call "double dipping". Mr.

Bilodeau said that they have historically opposed that kind of solution in respect to the fact that the cost to the pension system under that plan basically accelerates the expenditure of benefits from the TRS fund.

01:27:05 Sen. Balyeat said that teacher recruitment/teacher retention is often a reason for increasing benefits. He asked Mr. Bilodeau if it is true that Montana ranks near the bottom for average wages. Mr. Bilodeau said that if you look at the data that is available, Montana wages have actually done better relative to Montana teacher salaries.

Sen. Balyeat asked if Mr. Bilodeau could provide him with information on why the state has a higher percentage health premium paid to teachers as compared to a national average.

01:37:00 Rep. Mehlhoff said that the bottom line is recruitment. None of the figures matter if we can't put teachers in the classroom. Our problem is that we are having a catastrophe finding teachers in speciality areas. Would Mr. Bilodeau comment on that and make a prediction for the future?

01:44:41 Rep. Ingraham asked if accreditation standards are being addressed. Mr. Bilodeau said that there are ongoing discussions between all the educational interest groups, the Office of Public Instruction, and the Board of Public Education regarding accreditation standards.

-BREAK-

Public Comment

02:08:52 **Darryl Rud, Executive Director of School Administrators of Montana**, discussed the American Association of School Administrators' report "How the Economic Downturn Continues to Impact Montana School Districts" **(Exhibit 4)**.

ACTUARY 101: WHAT DO ACTUARIES DO AND HOW DO THEY DO IT
- Stephen McElhaney, FSA, Cheiron

02:15:56 Mr. McElhaney gave a presentation on what actuaries do and how they do it **(Exhibit 5)**.

Public Comment

None.

**PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS
ACTUARIAL VALUATION REPORTS - Stephen McElhaney and Ed
Macdonald**

02:55:29 Mr. McElhaney discussed the PERS actuarial valuation report "Systems Administered by Public Employees' Retirement Board" (**Exhibit 6**).

Questions

03:19:00 Sen. Jent said that if you look at the projected shortfall of 2.35% on page 7 of the June 30, 2009, valuation, does that number represent the percentage that our budget would have to fund to make this plan amortize over the 30-year statutory period?

Public Comment

None.

03:26:43 **Ed Macdonald, Cavanaugh Macdonald, Actuary for TRS**, gave a presentation on the valuation of the Teachers' Retirement System (**Exhibit 7**).

Questions

03:49:06 Rep. Mehlhoff asked what dates the statistics are from. Mr. Macdonald said that all the numbers presented are as of July 1, 2009.

03:50:43 Sen. Jent asked what percentage of the current employer contribution is property tax and what percentage is other taxes. Mr. Macdonald said that he doesn't know that answer but he can get that with TRS' help.

Public Comment

None.

-LUNCH-

BOARD OF INVESTMENTS - Carroll South, Executive Director

04:59:43 Mr. South distributed a Board of Investment's report on financial markets

and pensions investments (**Exhibit 8**).

Public Comment

None.

**NATIONAL CONFERENCE OF STATE LEGISLATURES - Ron Snell,
Director, State Services Division (via telephone)**

05:43:16 Mr. Snell said that as Director of State Services at the National Conference of State Legislatures in the Denver office one of his responsibilities is tracking state legislation on public pension plans.

Mr. Snell gave a presentation on three topics that deal with public pensions in the United States (**Exhibit 9**):

1. Origins of state public employee retirement plans;
2. Differences between public sector and private sector pensions; and
3. What states have been doing recently with changes to their pension systems.

Mr. Snell said that he will focus his presentation on the third topic.

05:57:01 Mr. Snell distributed and discussed a document "Sustaining State Retirement Benefits: Recent State Legislation, 2005-2009 (**Exhibit 10**).

BREAK

**NATIONAL ASSOCIATION OF STATE RETIREMENT
ADMINISTRATORS (NASRA) - Keith Brainard, Research Director**

06:33:57 Mr. Brainard gave a presentation on variations and developments in public employee retirement plan design (**Exhibit 11**).

Public Comment

None.

**RESPONSE OF THE RETIREMENT SYSTEMS TO MARKET VALUE OF
LIABILITIES**

07:20:42 **David Senn, Executive Director, Teachers' Retirement System**, addressed an article written by Andrew Biggs for the Wall Street Journal, which was critical of the risk-free rate and yet criticized and accused retirement boards of wanting to change actuaries because their actuaries

were recommending using a risk-free rate. In response to the issue of market value of liabilities (MVL), Mr. Senn said that they are a risk-free rate that private plans are required to use.

07:24:45 **Roxanne Minnehan, Executive Director, Montana Public Employees' Retirement Administration**, said that the majority of public pension plans agree that reporting market value of liabilities is not appropriate for the going concerns of public pension systems. Actuaries for public pension plans have traditionally calculated liabilities and the contributions to fund present and future plan liabilities on an ongoing concern basis. MVL is currently a philosophical debate regarding risk requirements. The Government Accounting Standards Board (GASB) is looking at this and if they should decide that public pension should report that way, MPERA will report that way in the future.

Questions

07:26:46 Rep. Mehlhoff asked Ms. Minnehan how many employees are under a defined contribution plan. Ms. Minnehan said that the public employees' retirement system has the option of a Defined Benefit plan and a Defined Contribution plan. All new hires default to the DB plan and have one year to choose to remain in the DB plan or elect the DC plan. They have approximately 2,000 members that have elected the DC plan, which is about 6% of the total members.

Public Comment

None.

07:28:54 Rachel Weiss, Staff Researcher, submitted written comments from the Teamsters Union (**Exhibit 12**). She also distributed the folder that held the responses to the RFI.

RECESS

07:30:17 Sen. Tropila recessed the meeting at 4:02 p.m., to reconvene at 9:00 a.m. on October 30, 2009.

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