Briefing on Ideas for Addressing the Unfunded Actuarial Liability of the State Retirement Systems
for the State Administration and Veterans' Affairs Interim Committee

Prepared by Megan Moore, Legislative Services

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This briefing provides information for the State Administration and Veterans' Affairs Interim Committee's study of options for addressing the unfunded actuarial liability of the state's retirement systems. When requesting the study, the committee asked for sources of funding other than increased employee and employer contributions. The following items are from a bill introduced during the 2011 session as well as ideas mentioned at meetings related to state employee pensions.

Coal Severance Tax

Rep. Janna Taylor introduced House Bill No. 632 (HB 632) during the 2011 legislative session. The intent of the bill was to direct some of the revenue generated from the coal severance tax to four public employee retirement systems: the Public Employees' Retirement System, the Sheriff's Retirement System, the Game Wardens' and Peace Officers' Retirement System, and the Teachers' Retirement System. These were the retirement systems that did not amortize their unfunded liabilities within 30 years as of the 2010 actuarial valuation.[1]

Article IX, Section 5 of the Montana Constitution directs 50 percent of the coal severance tax to the coal severance tax trust fund. The remaining 50 percent is split among the following eight funds, shown below with the amount they receive:

- General Fund, the remainder after other allocations;
- Long-range Building Program Account, 12%;
- Coal Natural Resource Account, 5.8%;
- Combined Account (Montana growth through agriculture, conservation districts, and State Library Commission), 5.46%;
- State Parks Trust, 1.27%;
- Renewable Resources Debt Service Fund, 0.95%;
- Cultural Trust, 0.63%;
- Coal and Uranium Mine Permitting and Reclamation Program, $250,000.

HB 632 would have limited the money going to the above accounts to the amount received in fiscal year 2013 and, going forward, adjusted the amount based on the change in the consumer price index for the previous year. The General Fund currently receives the remainder after the other listed allocations. This bill would have redirected the General Fund money to the

[1] Section 19-2-409, MCA requires the retirement systems to amortize unfunded liabilities over a 30 year period.

retirement systems with unfunded liabilities that, at the time of the drafting, did not amortize in 30 years. For fiscal year 2010, the General Fund received $10.3 million in coal severance tax revenue.[2]

The money received by the retirement systems would be split proportionally based on the unfunded actuarial liability of each system as compared with the sum of the unfunded actuarial liability for all four systems. If a system achieved actuarially sound funding, the revenue to be credited to that system would be reallocated proportionally among the other systems.

HB 632 passed the House 56-42 on third reading but failed on second reading in the Senate on a 13-37 vote.

Other Ideas

Pension stakeholders mentioned two other ideas for addressing the unfunded actuarial liability without raising employee or employer contributions. These ideas were only mentioned in passing at one or more meetings involving pension issues.[3] There is no formal or specific proposal to discuss here, but potentially relevant information is summarized below.

Lottery

Lottery revenue was suggested as a potential source of funding for the state retirement systems' unfunded actuarial liabilities. The Montana state lottery was created by legislative referendum and became effective January 1, 1987. Lottery revenue is generated from ticket sales, sales agent license fees, and unclaimed prizes. Profits remaining after paying prizes, ticket costs, commissions, and operating costs, are transferred to the General Fund. For fiscal year 2010, that amounted to $10.6 million.[4]

Oil & Natural Gas Production Tax

The increased North Dakota oil production has led to some predictions that Montana oil production will also increase in the coming years. An increase in oil production would generate higher oil and natural gas production tax revenues (if rates remained unchanged), which has been suggested for use by the retirement systems.

The oil and natural gas production tax is imposed on the production of petroleum and natural gas. The taxable value depends on the type of well and type of production. The tax rate also varies based on factors including whether the oil or gas is produced from a stripper well, from a stripper incentive well, from a well initially drilled before 1999 or after, from a well newly

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[2] Legislative Fiscal Division, "Montana's Coal Severance Tax Distribution Detail," September 2010.

[3] Other than SAVA, these meetings include meetings of the Legislative Finance Committee, Public Employees' Retirement Board, and Teachers' Retirement Board.

[4] Legislative Fiscal Division, "Legislative Budget Analysis 2013 Biennium," p. 274-278.

drilled within the last year or 18 months, and whether the taxed interest is the working interest or nonworking interest. The tax rate for stripper production and incremental production also depends on the West Texas Intermediate average price for the quarter.[5]

A portion of the oil and natural gas production tax is distributed to counties that produce oil and natural gas. The remaining tax revenue is then designated for the following funds:

- Coal bed methane account, 1.23%;
- Natural resources projects account, 1.45%;
- Natural resources operations account, 1.45%;
- Orphan share account, 2.99%;
- University 6 mill levy account, 2.56%; and
- General fund - the remainder (90.23%).

For fiscal year 2010, 46 percent of the revenue from the oil and gas production tax went to local governments and the remaining money was distributed as outlined above. The General Fund received 46 percent of the funds, or about $95.5 million. The total FY2010 collection from the oil and gas production tax was $206.3 million.[6]

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[5]Legislative Fiscal Division, "Legislative Budget Analysis 2013 Biennium," p. 123.

[6]Legislative Fiscal Division, "Legislative Budget Analysis 2013 Biennium," p. 123.-132.