

Fiscal Note Request - As Introduced

(continued)

Present Value of Actuarial Assets	\$7,341,304,639	\$7,341,304,639	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$2,354,243,426	\$2,354,243,426	\$0
Amortization Period (years) of UAAL	27.00	22.00	-5.00
Change in normal costs	9.83%	9.83%	0.00%

Pension Contribution Rates

	FY 2025 July 1, 2024	FY 2026 July 1, 2025	FY 2027 July 1, 2026	FY 2028 July 1, 2027	FY 2029 July 1, 2028
Public Employees					
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%	7.90%
Employer Contribution Rate	9.17%	9.17%	9.17%	9.37%	9.57%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL Contribution Rate	17.07%	17.07%	17.07%	17.27%	17.47%

Pension Liability

Teachers Retirement Board				
	July 1, 2024 Current System	July 1, 2024 With Changes	Increase/ (Decrease)	
Teachers				
Present Value of Actuarial Accrued Liability	\$7,025,625,000	\$7,025,625,000	\$0	
Present Value of Actuarial Assets	\$5,217,233,000	\$5,217,233,000	\$0	
Unfunded Actuarial Accrued Liability (UAAL)	\$1,808,392,000	\$1,808,392,000	\$0	
Amortization Period (years) of UAAL	21.00	19.00	-2.00	
Change in normal costs	10.76%	10.76%	0.00%	

Pension Contribution Rates

	FY 2025 July 1, 2024	FY 2026 July 1, 2025	FY 2027 July 1, 2026	FY 2028 July 1, 2027	FY 2029 July 1, 2028
Teachers					
Employee Contribution Rate	8.15%	8.15%	8.15%	8.15%	8.15%
Employer Contribution Rate	9.47%	9.47%	9.47%	9.67%	9.87%
State Contribution Rate	2.49%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	20.11%	20.11%	20.11%	20.31%	20.51%

FISCAL SUMMARY

	FY 2026 <u>Difference</u>	FY 2027 <u>Difference</u>	FY 2028 <u>Difference</u>	FY 2029 <u>Difference</u>
Expenditures				
General Fund (01)	\$300,000,000	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$1,808,991	\$3,733,377
Federal Special Revenue (03)	\$0	\$0	\$344,965	\$712,353
Other	\$0	\$0	\$0	\$0
Cities	\$0	\$0	\$525,653	\$1,085,473
Consolidated Governments	\$0	\$0	\$61,276	\$126,536

Fiscal Note Request - As Introduced

(continued)

Counties	\$0	\$0	\$916,396	\$1,892,358
MUS Tuition/Restricted	\$0	\$0	\$25,682	\$50,333
Proprietary	\$0	\$0	\$235,768	\$486,861
School Districts	\$0	\$0	\$1,496,183	\$3,089,617
Schools	\$0	\$0	\$437,321	\$903,068
University	\$0	\$0	\$351,777	\$726,420

Revenues

General Fund (01)	(\$49,850,000)	(\$35,000,000)	(\$33,100,000)	(\$23,900,000)
State Special Revenue (02)	\$352,100,000	\$50,390,000	\$47,703,925	\$38,222,414
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
PERS Trust	\$0	\$0	\$4,051,886	\$8,367,146
TRS Trust Fund	\$0	\$0	\$2,152,126	\$4,439,250

Net Impact

General Fund Balance

<u>(\$349,850,000)</u>	<u>(\$35,000,000)</u>	<u>(\$33,100,000)</u>	<u>(\$23,900,000)</u>
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Description of fiscal impact

SB 287 provides for a \$300 million transfer of General Fund into the Pension State Special Revenue account and increases the employer's supplemental contributions to the Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS) by 0.20% each year for ten years, for a total increase of 2.00% for each retirement system. A cap would be created on the debt and liability free account and allow unobligated balances in excess to be transferred to the Pension State Special Revenue account. The Pension State Special Revenue account would allow a limited transfer to the TRS and PERS if the long-term rate of return assumption was lower than the inception-to-date market rate over the last two consecutive fiscal years. Interest earned must be retained in the account and would be subject to appropriation by the legislature for purposes of employer contribution set by 19-3-316 and 19-20-609, MCA.

FISCAL ANALYSIS

Assumptions

Public Employees Retirement Board

1. SB 287 provides for a \$300 million transfer of general funds into the pension state special revenue account.
2. Starting July 1, 2025, and each subsequent fiscal year, 50% of the income established under 17-6-202, MCA must be credited to the general fund, and 50% of the income must be credited to the debt and liability free account established under 17-6-214, MCA.
3. Unobligated balances in the debt and liability free account in excess of \$150 million at the end of the second fiscal year of the biennium must be transferred to the pension state special revenue account under 17-7-134, MCA by August 15 following the fiscal year end of the second year of the biennium.
4. Interest earned must be retained in the pension state special revenue account and is subject to appropriation by the legislature. The balance in excess of \$300 million is subject to appropriation by the legislature for purposes of employer contributions set by 19-3-316 and 19-20-609, MCA.
5. Upon certification from the Montana Public Employee Retirement Administration (MPERA) board, the state treasurer shall transfer no more than 25% of the balance of the pension state special revenue account to ensure that the system meets its long-term rate of return assumption if the inception-to-date market rate as of June 30 in the previous two consecutive fiscal years is less than the current actuarially assumed rate of return set by MPERA.
 - a. The amount of transfer authorized is limited to the amount necessary to bring the inception-to-date market rate of return as of June 30 in the previous fiscal year up to the actuarially assumed rate of return set by MPERA.
 - b. The MPERA board shall certify to the state treasurer the amount of the transfer required under this section.

6. Beginning July 1, 2027 through June 30, 2037, each employer's contribution rate will increase by 0.20% each fiscal year until the total employer contribution rates is equal to 2.00%.
7. SB 287 has no impact on benefits provided of the system, however it would provide an additional source to finance the System's unfunded actuarial accrued liability.
8. The numbers presented in this fiscal note assume all actuarial assumptions will be realized, including the investment return assumption of 7.30%. If all assumptions are not met, the financial impact would change.
9. Salary projections are based on the actuarial assumed payroll growth assumption of 3.25%.

Teachers Retirement Board

10. SB 287 has no impact on the benefits provided of TRS.
11. Beginning July 1, 2027, through June 30, 2037, the employer's contribution rate will increase by 0.20% each fiscal year until the total employer contribution rate is equal to 13.96% of member compensation for a total increase of 2.00%.
12. The current statutory funding rate amortizes the unfunded actuarial accrued liability within 21 years. The impact of the proposed increase in contributions reduces the amortization period of the unfunded actuarial accrued liability to 19 years.
13. Up to 25% of the balance of the pension state special revenue account would be available to offset market losses for TRS if the TRS Board certifies the long-term inception-to-date market rate of return as of June 30 in two consecutive fiscal years is less than the actuarial assumed rate of return at that time.
14. The current inception-to-date market rate of return, as of December 31, 2024 is 7.77%. The current assumed rate of return is 7.30%. Based on the valuation assumptions that the market rate of return each year is 7.30%, the inception-to-date return is not expected to drop below the 7.30% assumed rate, so no transfer of funds from the pension state special revenue account is projected to occur in the forecast period.
15. The balance in excess of \$300 million in the pension state special revenue account is subject to appropriation by the legislature to pay the additional employer supplemental contributions contained in section 4 and section 5 of the bill.
16. Salary data for state agencies and MUS participants in TRS is from IBARS and is based on present law. Salary data for K-12 participating employees is based on actual salaries reported to TRS for FY 2024.
17. The increase in the TRS employer contribution rate is estimated to be funded as follows:
 - a. State agencies 70.2% state general fund, 0.7% state special revenue, 29.1% federal special revenue.
 - b. K-12 employers 28% state general fund, 72% school district retirement fund.
18. Approximately 95% of the TRS covered payroll for the MUS is funded with current unrestricted funds. The state portion of the current unrestricted fund is 48% general fund with the remainder coming from tuition and other sources.
19. 50.8% of the Community College covered payroll is funded with state general fund and the remaining 49.2% of Community College covered payroll is covered by tuition and other sources.
20. Salary increases of 3.25% are assumed for future years.
21. The impact presented in this fiscal note 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.
22. All calculations are based on the July 1, 2024 actuarial valuation.

Governor's Office

23. SB 287 changes the distribution of treasury cash account (TCA) interest earnings. Currently, all earnings are deposited into the debt and liability free account through FY 2025. Beginning in FY 2026 all earnings revert to the general fund. SB 287 permanently allocates 50% of earnings to the general fund and 50% of earnings to the debt and liability free account starting in FY 2026. Estimated TCA interest earnings from the HJ 2 revenue estimate are \$104.3 million in FY 2026, \$79 million in FY 2027, \$75.3 million in FY 2028, and \$56.8 million in FY 2029. The fiscal impact of SB 287 is an increase in revenue to the debt and liability free account and a decrease in revenue to the general fund of \$52.1 million in FY 2026, \$39.5 million in FY 2027, \$37.6 million in FY 2028, and \$28.4 million in FY 2029.
24. Section 2(e) expands the eligible uses of debt and liability free account funds to "acquire, purchase, or invest in loans, bonds, or other indebtedness or obligations payable to the state or an authority, board,

agency, or other body of the state.” This will allow the debt and liability free account to purchase outstanding coal trust loans in the Intermediary Relending Program (IRP), Montana Facility Finance Authority (MFFA), Veterans Home Loan, and Multifamily Home Loan programs. The total balance of the outstanding loans for these programs is \$89 million. These are subsidized loans lent out at below-market rates.

25. The movement of IRP, MFFA, Veterans, and Multifamily program subsidized loans from the coal trust fund to the debt and liability free account will generate increased earnings from the coal trust fund since the revenue from the debt and liability free account purchase will be invested at market rates. The purchase is expected to be made about halfway through FY 2026, so the fiscal impact of \$89 million in the coal trust fund moving from below-market to market yields is estimated to be \$2.25 million in FY 2026, and \$4.5 million for FY 2027 – FY 2029.

Fiscal Analysis Table

Governor's Office				
	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
Expenditures				
Benefits	\$0	\$0	\$0	\$0
Transfers	\$300,000,000	\$0	\$0	\$0
TOTAL Expenditures	\$300,000,000	\$0	\$0	\$0
Funding of Expenditures				
General Fund (01)	\$300,000,000	\$0	\$0	\$0
TOTAL Funding of Expenditures	\$300,000,000	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
Revenues				
General Fund (01)	(\$49,850,000)	(\$35,000,000)	(\$33,100,000)	(\$23,900,000)
State Special Revenue (02)	\$352,100,000	\$50,390,000	\$47,703,925	\$38,222,414
TOTAL Revenues	\$302,250,000	\$15,390,000	\$14,603,925	\$14,322,414
Other	\$0	\$0	\$0	\$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	(\$349,850,000)	(\$35,000,000)	(\$33,100,000)	(\$23,900,000)
Other	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$352,100,000	\$50,390,000	\$47,703,925	\$38,222,414

Public Employees Retirement Board				
	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
Expenditures				
Benefits	\$0	\$0	\$4,051,886	\$8,367,146
TOTAL Expenditures	\$0	\$0	\$4,051,886	\$8,367,146
Funding of Expenditures				
State Special Revenue (02)	\$0	\$0	\$1,185,878	\$2,448,838
Federal Special Revenue (03)	\$0	\$0	\$337,817	\$697,592

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Other	\$0	\$0	\$0	\$0
Proprietary	\$0	\$0	\$235,768	\$486,861
University	\$0	\$0	\$351,777	\$726,420
Cities	\$0	\$0	\$525,653	\$1,085,473
Consolidated Governments	\$0	\$0	\$61,276	\$126,536
Schools	\$0	\$0	\$437,321	\$903,068
Counties	\$0	\$0	\$916,396	\$1,892,358
TOTAL Funding of Expenditures	\$0	\$0	\$4,051,886	\$8,367,146

Revenues

Other	\$0	\$0	\$0	\$0
PERS Trust	\$0	\$0	\$4,051,886	\$8,367,146
TOTAL Revenues	\$0	\$0	\$4,051,886	\$8,367,146

Net Impact to Fund Balance (Revenue minus Funding of Expenditures)

State Special Revenue (02)	\$0	\$0	(\$1,185,878)	(\$2,448,838)
Federal Special Revenue (03)	\$0	\$0	(\$337,817)	(\$697,592)
Other	\$0	\$0	\$0	\$0
Proprietary	\$0	\$0	(\$235,768)	(\$486,861)
University	\$0	\$0	(\$351,777)	(\$726,420)
Cities	\$0	\$0	(\$525,653)	(\$1,085,473)
Consolidated Governments	\$0	\$0	(\$61,276)	(\$126,536)
Schools	\$0	\$0	(\$437,321)	(\$903,068)
Counties	\$0	\$0	(\$916,396)	(\$1,892,358)
PERS Trust	\$0	\$0	\$4,051,886	\$8,367,146

Teachers Retirement Board

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
Expenditures				
Benefits	\$0	\$0	\$0	\$0
State Agencies 0.2% contrib	\$0	\$0	\$24,565	\$50,726
MUS 0.2% contrib	\$0	\$0	\$49,529	\$97,389
State Portion K-12 0.2% contrib	\$0	\$0	\$581,849	\$1,201,518
School District K-12 0.2% contrib	\$0	\$0	\$1,496,183	\$3,089,617
TOTAL Expenditures	\$0	\$0	\$2,152,126	\$4,439,250
Funding of Expenditures				
State Special Revenue (02)	\$0	\$0	\$623,113	\$1,284,539
Federal Special Revenue (03)	\$0	\$0	\$7,148	\$14,761
Other	\$0	\$0	\$0	\$0
MUS Tuition/Restricted	\$0	\$0	\$25,682	\$50,333
School Districts	\$0	\$0	\$1,496,183	\$3,089,617
TOTAL Funding of Expenditures	\$0	\$0	\$2,152,126	\$4,439,250
Revenues				
Other	\$0	\$0	\$0	\$0
TRS Trust Fund	\$0	\$0	\$2,152,126	\$4,439,250
TOTAL Revenues	\$0	\$0	\$2,152,126	\$4,439,250

Net Impact to Fund Balance (Revenue minus Funding of Expenditures)

State Special Revenue (02)	\$0	\$0	(\$623,113)	(\$1,284,539)
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(continued)

Federal Special Revenue (03)	\$0	\$0	(\$7,148)	(\$14,761)
Other	\$0	\$0	\$0	\$0
MUS Tuition/Restricted	\$0	\$0	(\$25,682)	(\$50,333)
School Districts	\$0	\$0	(\$1,496,183)	(\$3,089,617)
TRS Trust Fund	\$0	\$0	\$2,152,126	\$4,439,250

STATEWIDE SUMMARY

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
Fiscal Impact				
TOTAL Fiscal Impact	0.00	0.00	0.00	0.00

Expenditures

Benefits	\$0	\$0	\$4,051,886	\$8,367,146
MUS 0.2% contrib	\$0	\$0	\$49,529	\$97,389
School District K-12 0.2% contrib	\$0	\$0	\$1,496,183	\$3,089,617
State Agencies 0.2% contrib	\$0	\$0	\$24,565	\$50,726
State Portion K-12 0.2% contrib	\$0	\$0	\$581,849	\$1,201,518
Transfers	\$300,000,000	\$0	\$0	\$0
TOTAL Expenditures	\$300,000,000	\$0	\$6,204,012	\$12,806,396

Funding of Expenditures

General Fund (01)	\$300,000,000	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$1,808,991	\$3,733,377
Federal Special Revenue (03)	\$0	\$0	\$344,965	\$712,353
Other	\$0	\$0	\$0	\$0
Cities	\$0	\$0	\$525,653	\$1,085,473
Consolidated Governments	\$0	\$0	\$61,276	\$126,536
Counties	\$0	\$0	\$916,396	\$1,892,358
MUS Tuition/Restricted	\$0	\$0	\$25,682	\$50,333
Proprietary	\$0	\$0	\$235,768	\$486,861
School Districts	\$0	\$0	\$1,496,183	\$3,089,617
Schools	\$0	\$0	\$437,321	\$903,068
University	\$0	\$0	\$351,777	\$726,420
TOTAL Funding of Expenditures	\$300,000,000	\$0	\$6,204,012	\$12,806,396

Revenues

General Fund (01)	(\$49,850,000)	(\$35,000,000)	(\$33,100,000)	(\$23,900,000)
State Special Revenue (02)	\$352,100,000	\$50,390,000	\$47,703,925	\$38,222,414
Other	\$0	\$0	\$0	\$0
PERS Trust	\$0	\$0	\$4,051,886	\$8,367,146
TRS Trust Fund	\$0	\$0	\$2,152,126	\$4,439,250
TOTAL Revenues	\$302,250,000	\$15,390,000	\$20,807,937	\$27,128,810

Net Impact to Fund Balance (Revenue minus Funding of Expenditures)

General Fund (01)	(\$349,850,000)	(\$35,000,000)	(\$33,100,000)	(\$23,900,000)
State Special Revenue (02)	\$352,100,000	\$50,390,000	\$45,894,934	\$34,489,037
Federal Special Revenue (03)	\$0	\$0	(\$344,965)	(\$712,353)
Other	\$0	\$0	\$0	\$0
Cities	\$0	\$0	(\$525,653)	(\$1,085,473)
Consolidated Governments	\$0	\$0	(\$61,276)	(\$126,536)
Counties	\$0	\$0	(\$916,396)	(\$1,892,358)
MUS Tuition/Restricted	\$0	\$0	(\$25,682)	(\$50,333)

Fiscal Note Request - As Introduced

(continued)

Proprietary	\$0	\$0	(\$235,768)	(\$486,861)
School Districts	\$0	\$0	(\$1,496,183)	(\$3,089,617)
Schools	\$0	\$0	(\$437,321)	(\$903,068)
University	\$0	\$0	(\$351,777)	(\$726,420)
PERS Trust	\$0	\$0	\$4,051,886	\$8,367,146
TRS Trust Fund	\$0	\$0	\$2,152,126	\$4,439,250

Technical Concerns

1. Due to the fiscal year format of this fiscal note, the \$300 million general fund transfer is shown in FY 2026. The transfer from the general fund would occur June 30, 2025 (FY 2025), per section 6 of SB 287.

NO SPONSOR SIGNATURE

Sponsor's Initials

Date

2/24



Budget Director's Initials

2/21/2025

Date