

LOCAL GOVERNMENT PENSION ANALYSIS DETAIL AND CLARIFICATION OF INITIAL ANALYSIS

A Report Prepared for the
Legislative Finance Committee

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INTRODUCTION

At the December 2011 Legislative Finance Committee (LFC) meeting, the pension report presented data on local government revenue, total expenditures, public employee wages, and employer contributions. The data was considered important as a first glimpse of the size of the unfunded actuarial liability (UAL) of the public pension systems relative to local government revenues and expenditures. The presentation generated questions of accuracy in the reported data. This report seeks to clarify some of the points of the December analysis and to answer the questions of the committee.

QUESTIONS

The intent of the December pension analysis was to provide an initial view into the potential impacts to local governments that would result from changes in employer contributions. However, the local government data raised questions from committee members. Some members had questions about the accuracy of the proportion of local government wages and employer contributions to total local government expenditures. The data was presented both in the form of an average, 32% of county budgets and 38% of city/town budgets are expended on public pension wages and employer contributions, and by individual cities and counties by county. The table of local government statistics is included in the Appendix of this report. Some committee members felt that the proportion of wages and contributions to total local government expenditures was understated.

DATA PRESENTED

The data presented in the December analysis presented wages and contributions as a proportion of total local government expenditures, not total personal services as a proportion of expenditures¹. Omitted from this view of employee costs are expenditures in health insurance, workers compensation, and employer taxes. Data from non-public pension participating cities/towns were segregated from the data set and not included in the analysis. This particular comparison was used because total personal services were not included in the local government annual reports. The comparison was intended to illustrate the relative size of the UAL and potential costs of changes to employer contributions to local governments.

SURVEY RESULTS

In an attempt to answer the questions related to data accuracy, the LFD surveyed several city/town and county financial personnel. The focus of the survey was local governments where specific committee questions were raised. The survey included one large and one small city/town and one large and one small county. Financial staff in the city of Helena, the town of Big Timber, Butte/Silver Bow County, and Pondera County participated in discussions related to the expenditures within their local governments.

The participating local governments provided the detail behind their FY 2011 budgets. Local government budgets were highlighted in this survey because the budgets include expenditures by object (personal services, operations, debt service, capital outlay, internal services, transfers) while annual reports only provide expenditures by function (general government, public safety, public health, etc.). Generally, this analysis assumes that budgets will follow actual expenditures to a large extent, again keeping in mind the differences between wages and employer contributions (as used in the December report) and personal services from the FY

¹ The data used for the December report was taken from the FY 2010 annual reports of incorporated cities and counties that participate in public retirement systems. Wage and employer contributions data was obtained through the Montana Public Employees Retirement System and included data for employees participating in the public employees' retirement system and various sheriffs, police, and fire retirement systems.

2011 budgets (which includes employee benefits). The matrix on the following page presents some of the findings that resulted from local government discussions and additional data provided by the local governments.

The matrix includes the participating local governments listed down the rows. The first data column provides total expenditures, wages, and employer contributions from the December report for FY 2010 activities. The next column provides the FY 2011 budget details from each of the participating local governments. A comparison can readily be made between what was shown in the December report and the total personal services budgeted in the following year.

It is assumed that the budgeted personal services should be somewhat higher than the total percent of wages and contributions. For example, the Town of Big Timber was shown to have expended 15.2% of its total expenditures on wages and employer contributions in FY 2010. In FY 2011 the town budgeted 18% of total expenditures for personal services. However, that assumption is not met when the total budget for FY 2011 is significantly larger than the actual expenditures from the preceding year. In the cases of Butte/Silver Bow County and Pondera County, the proportion of personal services to the total budget was less than the proportion of wages and contributions to total expenditures in the preceding year, resulting from significant budget increases in FY 2011.

The last column of the matrix provides personal services by fund. The data was provided in the survey. The significance of this information will be explained later in this report.

SURVEY CONCLUSIONS

While there may be a public perception that personal services are a much higher cost of public budgets, this small sampling shows that is not the case. The operational costs of local governments are as significant, if not more significant, than personal service costs. Additionally, capital outlay can skew the proportion of the budget that is paid for other objects. While this small survey cannot be considered statistically significant, it does provide some insight on the magnitude of personal services to total budgets. Some of the relevant information drawn from the small sampling is:

- Personal service costs range between 18% and 43% of the total budget
 - Personal services includes employee benefits in addition to the shown wages and contributions
- Operational costs, including overhead costs, are often as costly as personal services
- Capital outlay can be a significant part of the budget and ranged between 10% and 40% of budgets
 - Capital outlay consumes a greater proportion of smaller budgets

Along with the high level picture of local government finances provided in the matrix, several additional items of interest came to light in the discussions with the local governments:

- Local governments can use significantly different fund structures in creating and expending their budgets. There are generally basic commonalities used, but some local governments do not, for example, use a proprietary fund structure for their business-type activities. Therefore, the ability to compare impacts of changes to the pension system across local government entities could be somewhat hindered.
- The local governments surveyed, unlike the state, do not provide retirement benefits to part-time workers. Additionally, the participating local governments do not offer retirement benefits to temporary and volunteer workers.
- Internal service funds were not included in the total local government expenditures presented in December since they constitute a double counting when looking at the total budget. However, internal services are used to pay public employees and are one part of funding for pensions. When analyzing the costs of pensions, the secondary impact from internal service funds will need to be resolved.

FUTURE ANALYSIS

The LFD goal is that future analysis will provide FY 2011 actual data on personal services by fund. In the survey matrix, the last column shows the budgeted personal services by fund. This type of break out of local

government spending will be important in gauging the impact of changes to employer contributions in the pension system. Armed with this information, future local government pension analysis could provide a better basis for the calculation of where costs might increase, be it to property tax or services costs. For example, the matrix shows that between 31% and 60% of the wages are paid through governmental funds, which with increases in employer contributions could create the need for increases in property taxes. At the same time, between 18% and 40% of all local government wages are paid from enterprise (proprietary) funds. In that case, an increase in employer contributions could lead to increased costs of local government services.

Local Govt. Entity	Dec. Report Data		FY 2011 Budget				FY 2011 Budgeted		
	FY 2010 Actual		Attributes				Personal Services by Fund		
	(in millions)		(in millions)				(in millions)		
City of Helena	Expenditures	\$47.020	PS	\$21.760	42.5%	GF	\$11.612	53.4%	
	Wages	14.263 30.3%	Ops	19.682	38.5%	SR	3.289	15.1%	
	Contrib.	1.385 2.9%	DS	4.882	9.5%	Ent	6.449	29.6%	
	Total	\$15.649 33.3%	CO	4.864	9.5%	IS	0.411	1.9%	
			Total	\$51.188		Total	\$21.760		
Town of Big Timber	Expenditures	\$1.883	PS	\$0.440	18.0%	GF	\$0.260	59.9%	
	Wages	0.267 14.2%	Ops	1.059	43.2%	SR	0.002	0.5%	
	Contrib.	0.019 1.0%	DS	0.069	2.8%	Ent	0.171	39.4%	
	Total	\$0.286 15.2%	CO	0.881	35.9%	Vol. GF	0.001	0.2%	
			G&D	0.003	0.1%	Total	\$0.434		
Butte/Silver Bow County	Expenditures	\$68.928	PS	\$34.448	28.3%	GF	\$15.639	45.4%	
	Wages	19.924 28.9%	Ops	34.4646	28.3%	SR	11.144	32.3%	
	Contrib.	1.731 2.5%	DS	3.65973	3.0%	Ent	6.288	18.3%	
	Total	\$21.654 31.4%	CO	49.0692	40.3%	IS	1.378	4.0%	
			Total	\$121.641		Total	\$34.449		
Pondera County	Expenditures	\$4.933	PS	\$2.757	33.3%	GF	\$0.850	30.8%	
	Wages	1.754 35.5%	Ops	4.190	50.6%	SR	1.9076	69.2%	
	Contrib.	0.139 2.8%	DS	0.000	0.0%	Ent	0.000	0.0%	
	Total	\$1.892 38.4%	CO	1.329	16.1%	IS	0.000	0.0%	
			Total	\$8.276		Total	\$2.757		

Key: PS-Personal Services, Ops-Operations, DS-Debt Service, CO-Capital Outlay, G&D-Grants and Donations, IS-Internal Services
 Funds: GF-General Fund, SR-Special Revenue, DS-Debt Service, CP-Capital Project, Ent-Enterprise, IS-Internal Service, Vol. GF-Volunteers costs funded with General Fund

Notes:

- FY 2010 Wages are wages as recorded by MPERS for employees participating in public pension programs.
- Internal services and transfers, as provided in the participant's budget information, are excluded to avoid double counting in spending and to provide consistency with the December analysis.
- The discrepancy in personal services for the Town of Big Timber occurs because actual costs were provided for the personal services by fund.

CONCLUSION

The small survey of local governments leads to the conclusion that the wages and employer contributions as provided in the December report are not understated. Given that the data presented was not meant to show total personal service costs and did not include some employee benefits, and understanding that wages were not included for part-time and seasonal workers, the FY 2010 wage data appears appropriately similar to the FY 2011 budget data. Capital outlay can consume large parts of small budgets and may be responsible for some of the perceived anomalies. While this sampling is not statistically significant, it does provide a view into what the actual local government budgets are like. Future analysis will focus less on the size of wage and employer contributions costs to the total budget and more on where potential cost impacts will be recognized in local government budgets.

APPENDIX

This table was presented to the LFC in the pension report at the December 2010 meeting. The table was revised with a correction of a slight instance of improper data attribution. The correction impacted several local government proportions (Powder River, Flathead, and Fergus), but did not change the grand totals.

FY 2010 All Expenditures and Wages & Contributions Percentage							
	City	County	City	County	City	County	Total
Beaverhead	\$4,699,421	\$11,878,754	13.6%	21.8%	1.0%	1.7%	20.9%
Big Horn	4,948,360	16,213,338	19.3%	24.4%	1.4%	1.8%	24.9%
Blaine	3,158,901	7,184,579	25.5%	36.2%	1.8%	2.7%	35.4%
Broadwater	1,387,428	5,824,599	20.4%	32.7%	1.4%	2.7%	32.8%
Carbon	7,158,249	8,404,006	20.0%	33.2%	1.9%	2.5%	29.4%
Carter	407,614	3,857,800	11.6%	20.2%	0.8%	1.5%	20.8%
Cascade	58,127,895	41,516,399	43.9%	38.8%	4.3%	3.0%	45.5%
Chouteau	2,668,275	6,845,620	24.7%	34.0%	2.2%	2.6%	33.9%
Custer	8,773,369	7,463,770	35.6%	34.9%	3.4%	2.6%	38.3%
Daniels	950,846	2,577,909	19.8%	34.0%	1.4%	2.6%	32.5%
Dawson	5,615,303	11,624,056	35.9%	41.7%	3.3%	3.4%	43.1%
Deer Lodge		14,967,049		18.0%		1.3%	28.8%
Fallon	2,473,140	10,875,383	37.3%	25.3%	3.9%	1.9%	29.8%
Fergus	8,314,817	7,888,943	27.8%	36.4%	2.9%	2.8%	34.8%
Flathead	65,536,378	62,099,456	27.1%	35.4%	2.5%	2.7%	33.7%
Gallatin	69,082,096	74,739,326	31.2%	23.1%	3.0%	1.8%	29.4%
Garfield	314,480	3,533,910	0.0%	22.4%	0.0%	1.6%	22.1%
Glacier	3,270,437	8,858,619	32.0%	33.7%	2.3%	2.7%	35.8%
Golden Valley	500,508	1,284,510	3.8%	21.4%	0.3%	1.7%	17.7%
Granite	1,227,763	3,611,766	21.2%	32.5%	1.5%	2.5%	31.8%
Hill	9,515,664	11,433,919	37.0%	37.4%	3.7%	2.9%	40.4%
Jefferson	1,931,024	10,319,447	12.1%	35.2%	0.9%	2.7%	34.0%
Judith Basin	1,591,942	2,808,022	2.8%	30.1%	0.2%	2.3%	21.7%
Lake	6,785,575	16,513,636	1.8%	37.3%	0.1%	3.0%	29.1%
Lewis & Clark	49,388,784	42,256,055	30.4%	41.2%	2.9%	3.2%	38.4%
Liberty	821,962	3,364,669	25.6%	35.0%	1.8%	2.6%	35.6%
Lincoln	4,692,365	22,710,736	35.1%	24.6%	2.9%	1.9%	28.5%
Madison	2,103,393	17,187,551	22.7%	32.8%	1.6%	2.4%	34.0%
McCone	776,586	3,042,802	13.0%	34.2%	0.9%	2.6%	32.1%
Meagher	713,674	5,511,226	14.6%	17.0%	1.0%	1.3%	18.0%
Mineral	709,925	4,140,291	28.6%	37.2%	2.0%	2.8%	38.7%
Missoula	67,299,854	75,022,806	34.2%	40.1%	3.7%	3.1%	40.7%
Musselshell	1,952,140	4,146,652	16.5%	31.7%	1.2%	2.5%	28.9%
Park	10,237,965	12,659,035	35.3%	29.8%	3.5%	2.3%	35.1%
Petroleum	214,711	1,025,062	19.6%	20.9%	1.4%	1.6%	22.3%
Phillips	1,818,680	5,785,580	26.1%	33.2%	1.8%	2.5%	33.9%
Pondera	2,738,844	4,933,255	30.1%	35.5%	2.1%	2.8%	36.2%
Powder River	522,741	7,004,450	29.0%	29.7%	12.0%	2.2%	32.5%
Powell	-	6,333,434		27.0%		2.1%	37.0%
Prairie	439,575	1,813,256	20.5%	37.9%	1.4%	2.8%	37.0%
Ravalli	6,338,672	23,455,327	37.2%	34.6%	3.2%	2.7%	37.9%
Richland	4,222,001	32,287,459	29.9%	15.4%	2.1%	1.1%	18.3%
Roosevelt	5,798,821	7,295,621	24.5%	46.8%	2.1%	3.5%	39.8%
Rosebud	6,271,002	9,334,643	26.3%	34.6%	1.9%	2.7%	33.6%
Sanders	3,053,994	11,440,520	27.2%	27.7%	2.2%	2.1%	29.7%
Sheridan	1,283,460	6,744,422	27.1%	36.6%	1.9%	2.7%	37.6%
Silver Bow	-	68,927,743		1.1%		1.7%	31.4%
Stillwater	2,380,073	7,042,154	22.6%	35.6%	1.6%	2.7%	34.7%
Sweet Grass	1,882,786	12,989,302	14.2%	27.3%	1.0%	2.0%	27.5%
Teton	2,728,946	7,399,390	16.1%	37.2%	1.1%	2.8%	33.9%
Toole	5,065,687	23,280,564	15.8%	26.7%	1.1%	2.0%	26.6%
Treasure	509,181	1,322,699	0.0%	33.6%	0.0%	2.5%	26.1%
Valley	4,349,444	8,274,290	29.9%	31.5%	2.8%	2.4%	33.5%
Wheatland	920,240	3,210,749	17.9%	27.0%	1.3%	2.2%	27.0%
Wibaux	401,428	3,208,479	21.7%	29.3%	1.5%	2.2%	30.6%
Yellowstone	147,968,480	46,911,027	31.7%	40.3%	3.1%	3.2%	36.9%
Grand Total	\$606,044,897	\$838,219,125	34.5%	29.9%	3.3%	2.3%	34.6%