K-12 BUDGET UPDATE
ON SCHOOL PAYMENTS TO TRS

A Report Prepared for the

Legislative Finance Committee

By

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LFD

MONTANA LEGISLATIVE FISCAL DIVISION

HOUSE BILL 377 TRS SWEEP

House Bill 377, passed by 63rd Legislature and signed into law in 2013, provides additional funding to the Teachers Retirement System (TRS). The focus of this report is to explain the sweep of funds from school district retirement accounts into the TRS as a result of a reduction in the amount of retirement fund reserves the school districts are allowed to retain. This sweep amounted to $22 million being transferred to TRS, and is one of several basic mechanisms through which HB 377 provides additional funding to the TRS.

The other basic HB 377 mechanisms for additional TRS fund provision are:

1. **Increased Employee Contribution**
   Members who belong to the TRS had the percentage of the member's earned compensation increase from 7.15% to 8.15%. There are nuances to this, such as members now belonging to one of two tiers based on employment start date, but the current effect is a 1% increase in member contributions to TRS.
2. **Increased Employer Contribution**
   The employer contribution to the TRS increased 1% in FY 2014, and will increase 0.1% every year after that until FY 2024 when the supplemental contribution will be 2% for following fiscal years.
3. **Changed Guaranteed Annual Benefit Adjustment (GABA)**
   The annual benefit adjustment may be decreased to 0.5% if TRS liabilities are less than 90% funded.
4. **Fund transfer from the State General Fund**
   The state will transfer annually to the TRS an additional $25 million.

School district retirement funds are governed by 20-9-501 MCA. Each school district has a retirement fund which is separate from their general fund and is used to pay the school district's contribution to the TRS, social security, Medicare, and unemployment insurance. The amount in this fund is set annually based on the needs calculated by each school district, along with a reserve amount. The district submits the annual budget to the county for funding. In FY 2013 reserves were allowed at a maximum of 35% of the total retirement fund budget for each district. HB 377 decreased that reserve amount to a maximum of 20% of the retirement fund budget and required the one time transfer of "excess" FY 2013 retirement fund operating reserves to TRS.

HOW THE SWEEP IS CALCULATED

The HB 377 retirement fund sweep had two ways of being calculated. Calculation 1 subtracts 20% of the FY 2013 retirement budget from the 2013 retirement operating reserve, calculation 2 subtracts the new FY 2014 allowable retirement fund reserve from the FY 2013 end-of-year balance. The larger of the two is what is sent to TRS.

Calculation 1

2013 Retirement Operating Reserve	-	20% of 2013 Retirement Budget	=	Oct. 1 2013 Payment to TRS (Scenario 1)

Calculation 2

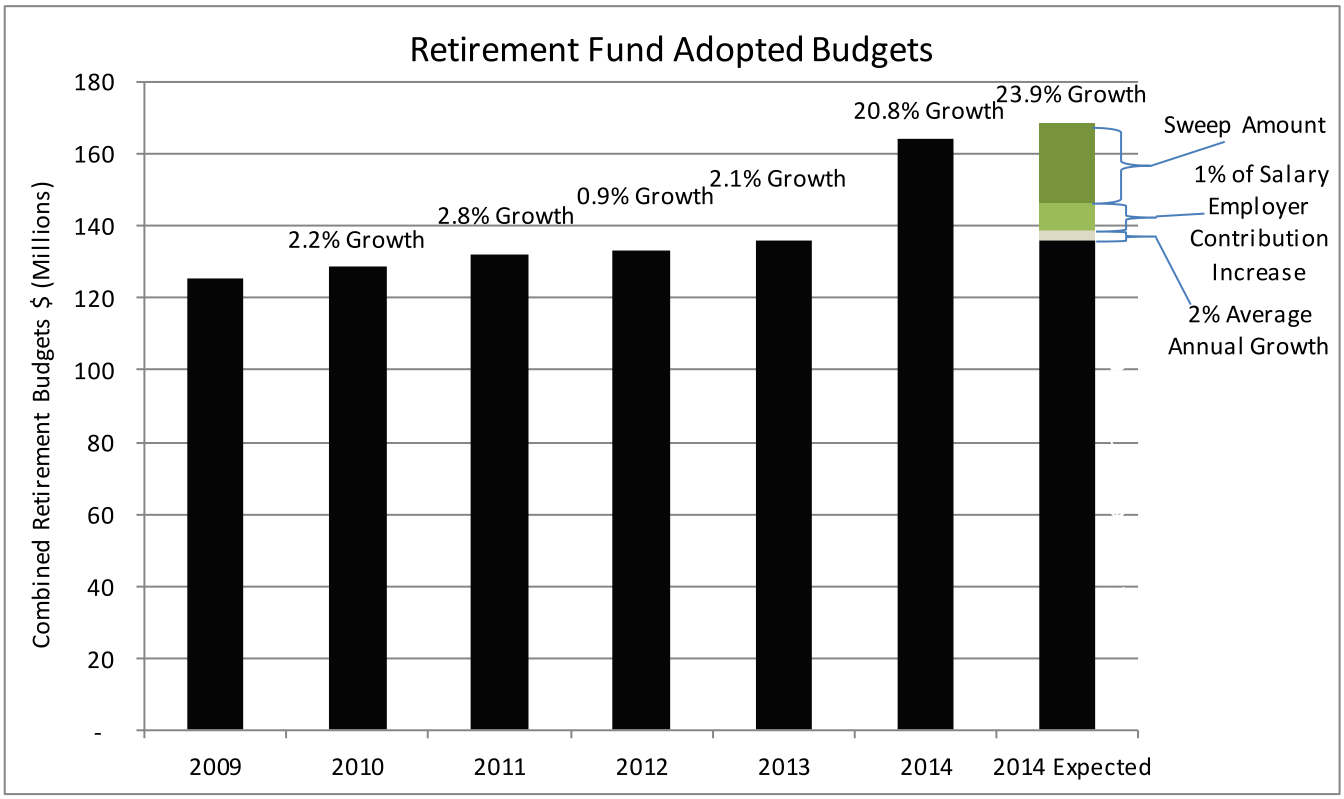
2013 Retirement Fund End-of-Year Balance (includes reserve)	-	2014 allowable Retirement Fund Reserve (20% of 2014 Budget)	=	Oct. 1 2013 Payment to TRS (Scenario 2)

SCHOOL DISTRICT RETIREMENT FUND BUDGETS

The FY 2014 retirement fund budgets of school districts did, in aggregate, increase much more than the historical average. Retirement budgets in total increased by 20.8%, while the past 4-year average is 2% growth per year. This large increase raised some concern among counties that school districts were artificially increasing retirement budgets to either retain larger reserves or decrease the sweep amount to the TRS, as the FY 2014 retirement budget is the only point available to districts to affect the sweep calculations.

In aggregate, the 20.8% growth is somewhat lower than may have been expected. This is due to the fact that the FY 2014 retirement budgets for the districts had to budget the amount that was expected to be swept to TRS as well as the 1% supplemental employer contribution to the TRS. The HB 377 fiscal note estimated that would be $7.7 million in FY 2014. Given that $7.7 million, the $22 million TRS sweep, and the historic 2% year over year growth, a total growth of 23.9% from the FY 2013 baseline could have been expected.

This higher level of retirement budgets is also not expected to continue as the sweep amount shown below should not be needed to be in the budgets in FY 2015. The 2% average growth and the increase due to the 1% supplemental employer contribution will, however, remain in the budgets.



Impacts at District and County Levels

The increase in budgets caused an increase in funds requested from the counties of $19.2 million, going from $123.8 million in FY 2013 to $143.0 million in FY 2014. This increase in requested funds occurred from two sources.

			FY 2013	FY 2014	Change	% Change
District Level	Setting District Budgets	FY 2013 Budget		136,044,169		
		Sweep Amount (HB 377)		22,049,646		
		Employer Contribution (HB 377)		6,289,590		
		Budget	**136,044,169**	**164,383,405**	28,339,236	20.8%
	Setting Request	Budget	136,044,169	164,383,405		
		Fund Balance Reappropriated [a]	12,111,051	21,176,636	9,065,585	74.9%
		Non-Levy Revenue	102,270	158,409	56,139	54.9%
		County Retirment Distribution	**123,830,848**	**143,048,360**	19,217,512	15.5%
County Level	Setting County Levy	County Retirment Distribution	123,830,848	143,048,360		
		County Non-Levy Revenue	10,622,105	10,744,419	122,314	1.2%
		Anticipated Change to Fund Balance	3,174,528	-2,202,594	(5,377,122)	-169.4%
		County Levy Distribution	**116,383,271**	**130,101,347**	13,718,076	11.8%
	Removing GTB	County Levy Amount	116,383,271	130,101,347		
		Retiremnt GTB	31,661,613	34,886,958	3,225,345	10.2%
		County Levy	**84,721,658**	**95,214,389**	10,492,731	12.4%
		County Retirement Fund Balance [b]	**26,542,380**	**34,123,414 (Est.)**		

[a] In FY 2014 the Fund Balance Reappropriated included a sweep effect decrease in reserves of $9.1 million.
[b] County Retirement Fund Balance is primarily Fallon and Richland County, they have no levies for these funds and their balances continue to rise due to available oil and gas non-levy revenue. In FY 2013, they represented $23.7 million of that balance. The other counties appear to reappropriate fund balances annually.

How the Increase in Budget was Paid for

The cost of the district budget increases was funded by districts and counties. These numbers are reordered and summed from the table above.

		FY 2013	FY 2014	Change
District Level	District Non-Levy Revenue	102,270	158,409	56,139
	Fund Balance Reappropriated (includes $9,147,725 decrease in reserves in FY 2014)	12,111,051	21,176,636	9,065,585
				$ 9,121,724

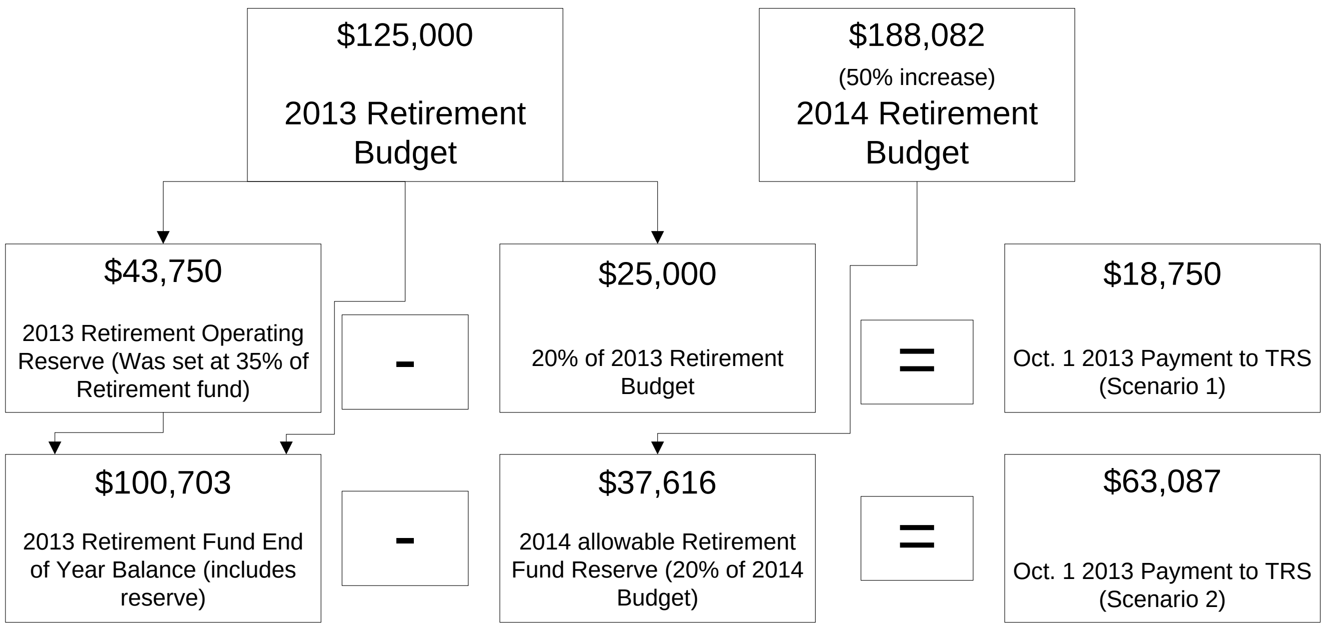
County Level	County Non-Levy Revenue	10,622,105	10,744,419	122,314
	Retiremnt GTB	31,661,613	34,886,958	3,225,345
	County Change to Anticipated Fund Balance	3,174,528	-2,202,594	5,377,122
	County Levy	84,721,658	95,214,389	10,492,731
				$ 19,217,512

HOW SWEEP AFFECTED DISTRICTS

The TRS sweep affected districts differently. The major factors of influence were the level of operating reserve and the amount of retirement fund end-of-year balance the district had for FY 2013. Shown are three actual examples from extreme cases. The three cases are; Brockton High School in Roosevelt County as they made the highest per ANB (Annual Number Belonging, the state measurement of students at a school) payment to the TRS sweep, Helena Elementary as they paid more in absolute terms than any other district, and Great Falls Elementary as they had a $0 payment to the TRS sweep.

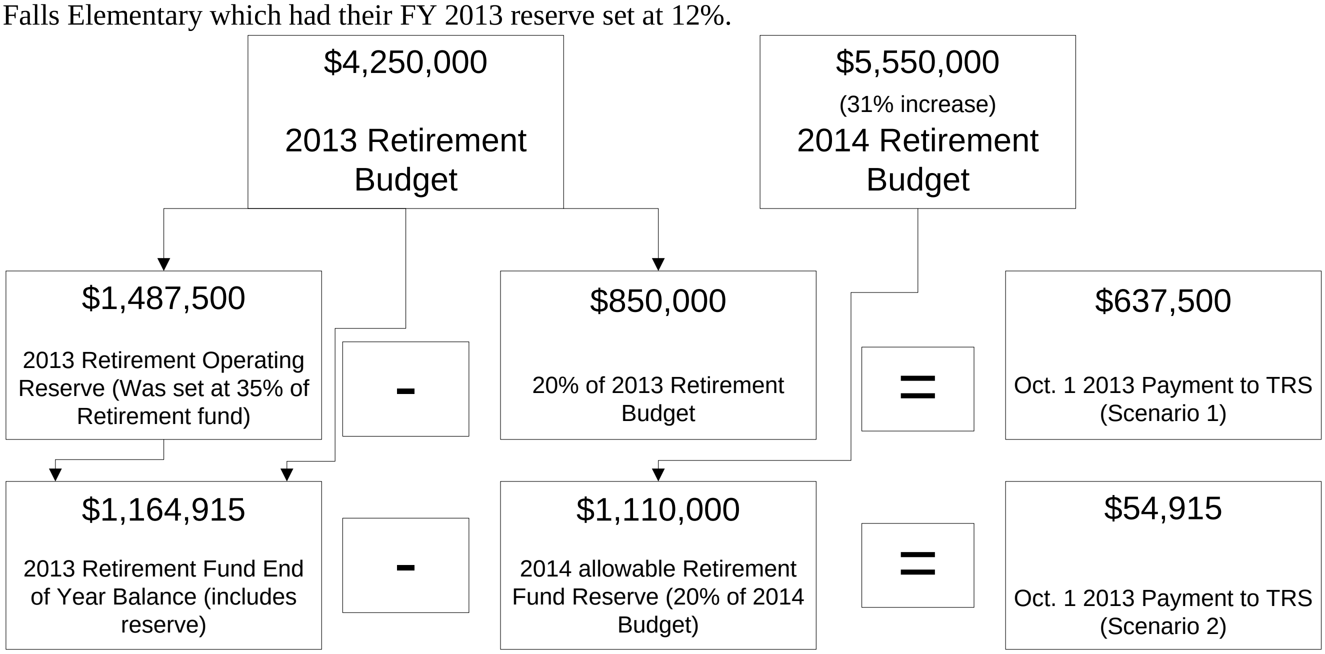
High Payment Per ANB (Brockton High School)

This large per ANB payment resulted from a low ANB, only 29, and a relative large FY 2013 End-of-year balance.



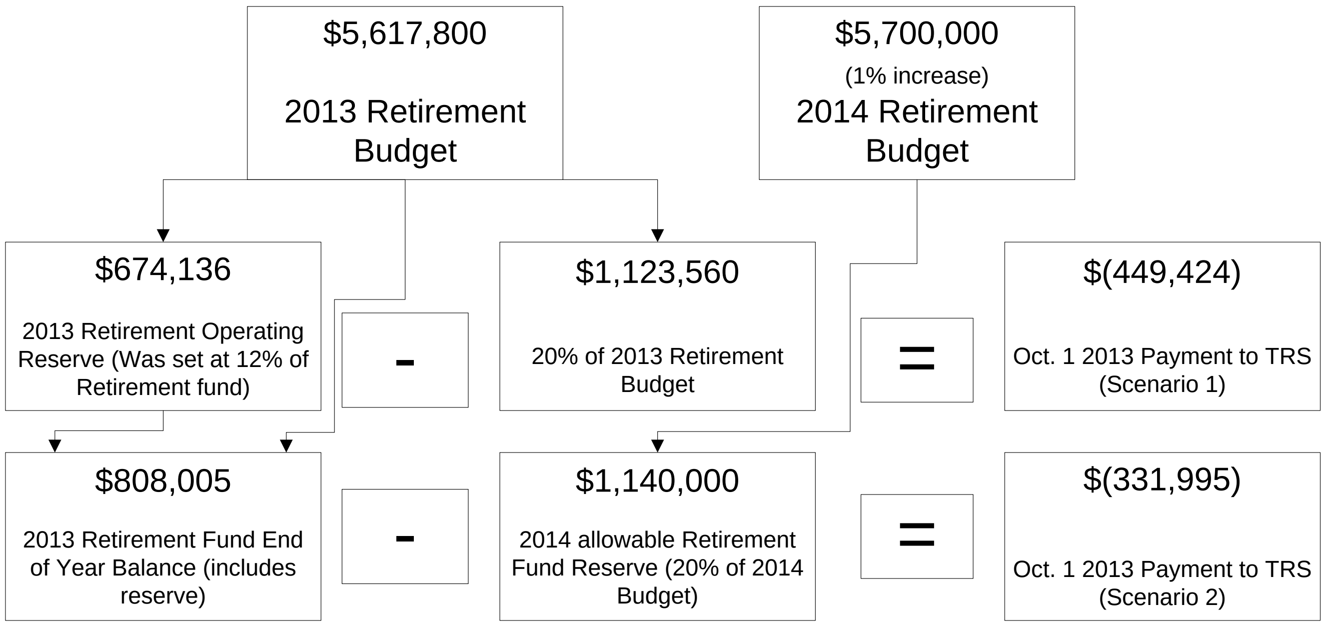
High Total Payment (Helena Elementary)

This large absolute payment resulted primarily from Helena having their reserve set at 35%, compared to Great Falls Elementary which had their FY 2013 reserve set at 12%.



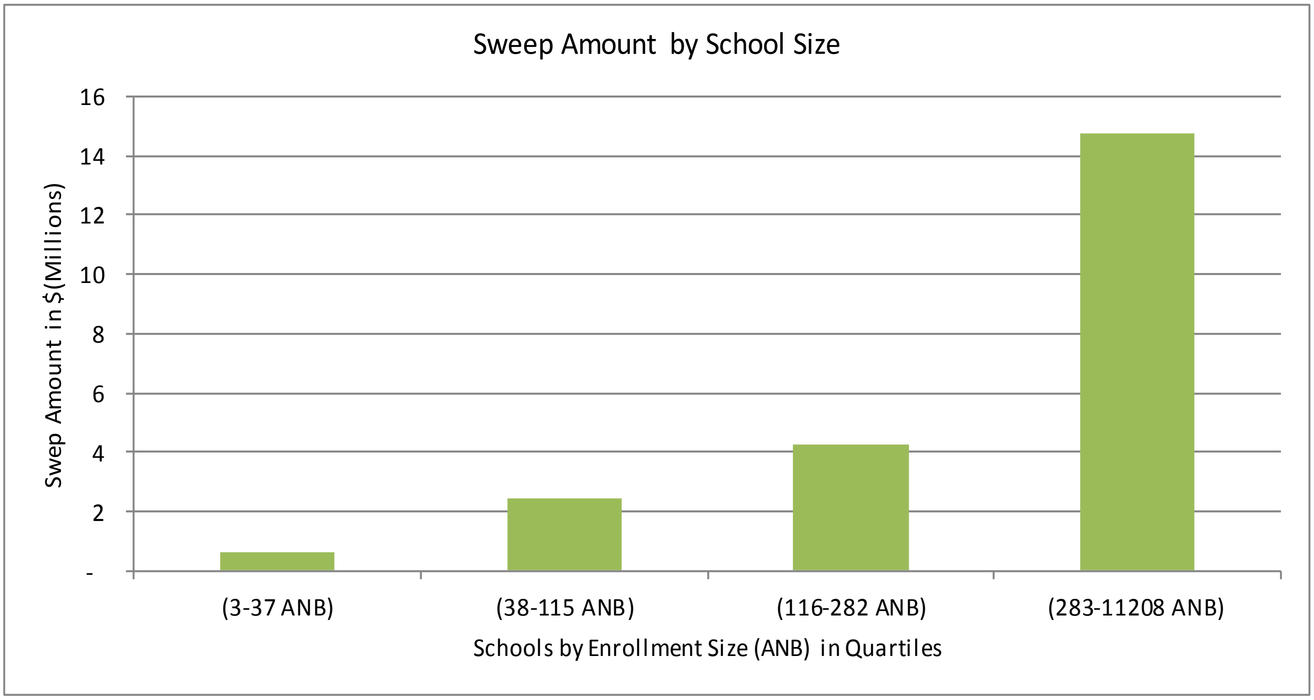
Zero Payment (Great Falls Elementary)

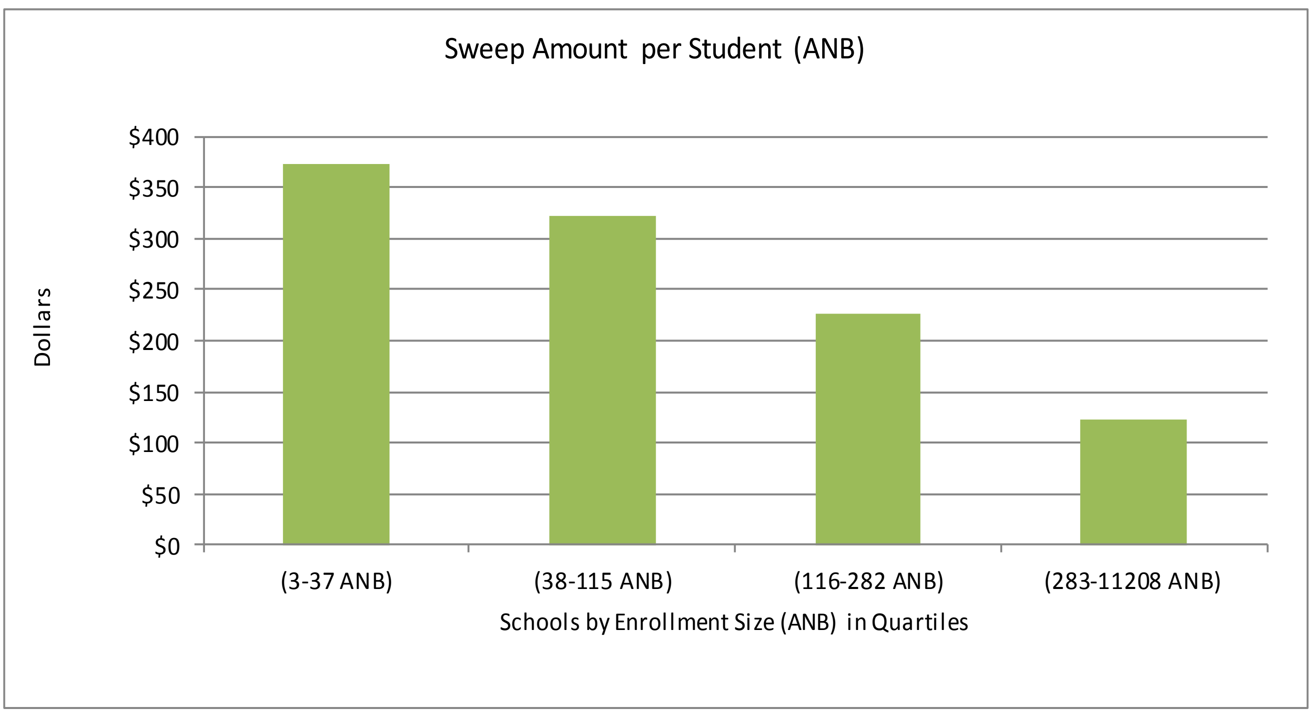
Great Falls had a $0 payment as their FY 2013 budget seems to be very close to the amount spent, and their operating reserve was only 12%, resulting in a low end-of-year balance.



PAYMENT DISTRIBUTION AMONG SCHOOLS BY SIZE

The distribution of payments to the TRS as a result of the HB 377 sweep varied widely by school size (ANB) quartile, each quartile contains the same number of schools. In absolute terms, the largest school districts paid the most amount by a wide margin. However, per student, larger school districts made smaller payments. This is primarily due to larger districts not maxing out the operating reserves and having spending from the retirement fund close to FY 2013 budgets, resulting in proportionally smaller end-of-year balances, similar to Great Falls Elementary.





CONCLUSION

The sweep of district retirement funds that occurred as a result of HB 377 transferred $22 million to the TRS. Two methods of calculating the payment, with the higher of the results used, set minimum payments essentially removing much of the ability of school districts to decrease their TRS sweep by increasing their FY 2014 retirement budget. Aggregated, district retirement budgets increased over 20%, but not more than what would be expected from the TRS sweep amount and 1% employer contribution mandatory increases in the budget. The reduction in district reserves was $9.1 million, in comparison to the $22 million swept from these funds. The additional nearly $13 million was funded from a contribution of county fund balance, levies, and state retirement GTB. The 1% employer contribution will remain in FY 2015 budgets and beyond, however the increase associated with the sweep is expected to be a one-time cost in FY 2014. Districts were affected differently with some being able to have $0 payments to the TRS sweep, and in general smaller districts paying more in sweep dollars per student.