Alternate Revenue
2008 Legislative Update

LEOFF Plan 2 Retirement Board

March 26, 2008

Alternate Revenue – As Passed

- Biennial Appropriation
  - Split between local gov't and LEOFF Plan 2
- Subject to increases in state revenue
  - 5% increase over previous biennium
- Revenue stream "phased-in" 2011-2017
  - Scheduled amounts 2011, 2013, 2015
  - Reaches maximum level in 2017
  - Lesser of $50 million or 1/3rd of revenue increase (split between L2 and Local Gov)

Alternate Revenue – As Passed

- Sub-Account created in LEOFF Plan 2 pension fund
  - “LEOFF Benefit Improvement Account”
  - Funds not included in plan assets until directed by Board

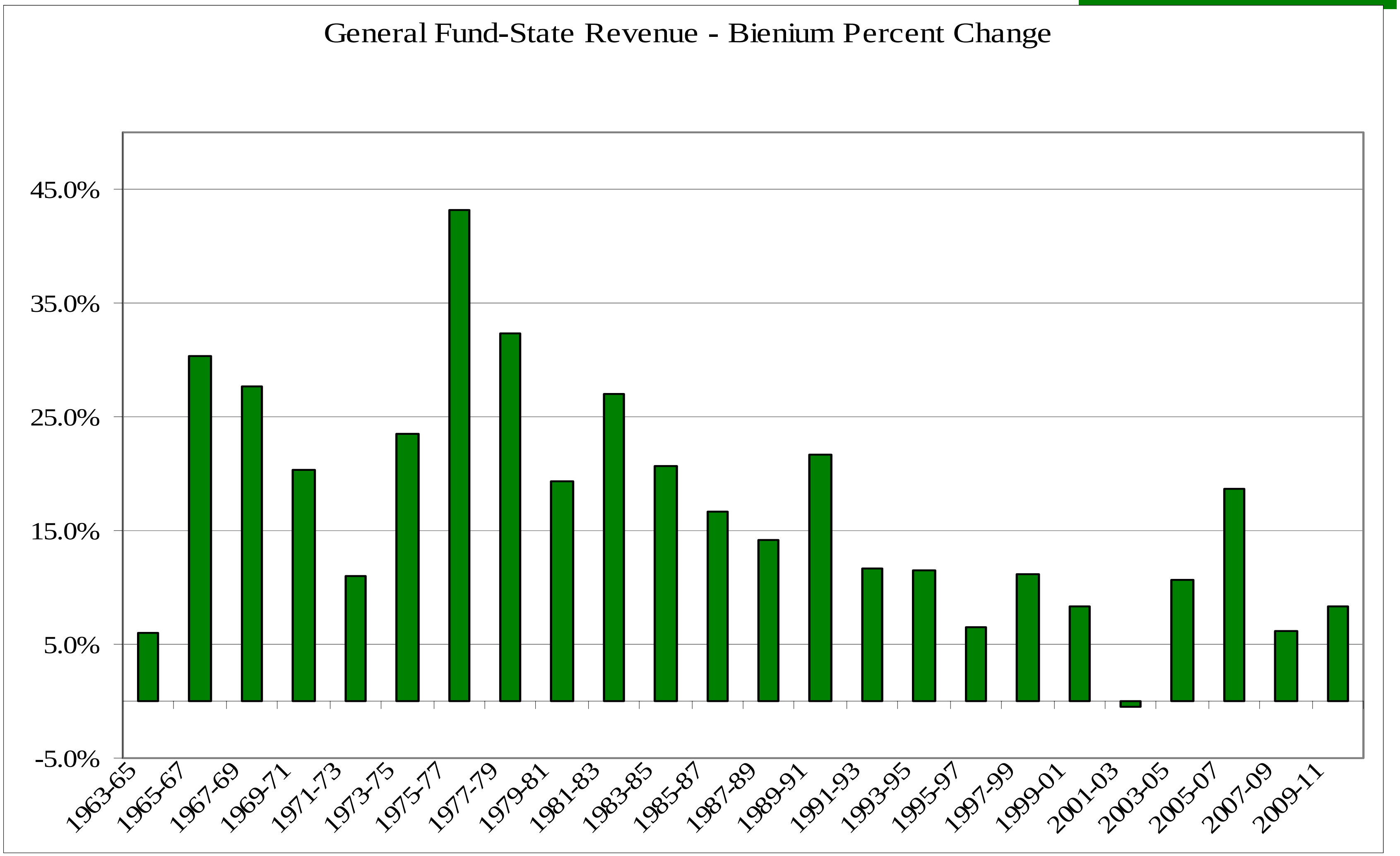
Issues Along The Way

- Revenue Trigger
- Revenue Stream
- Contractual Rights
- Approving Benefit Improvements
- Funding Benefit Improvements

Revenue Trigger

- Revenue growth trigger increased
  - Original Bill: 1% annual threshold
  - As Passed: 5% biennial threshold

Revenue Trigger - History



Revenue Stream

- Appropriation changed from annual appropriation to “phased-in” biennial appropriation

- Original Bill
  - Annual appropriation starting in 2009

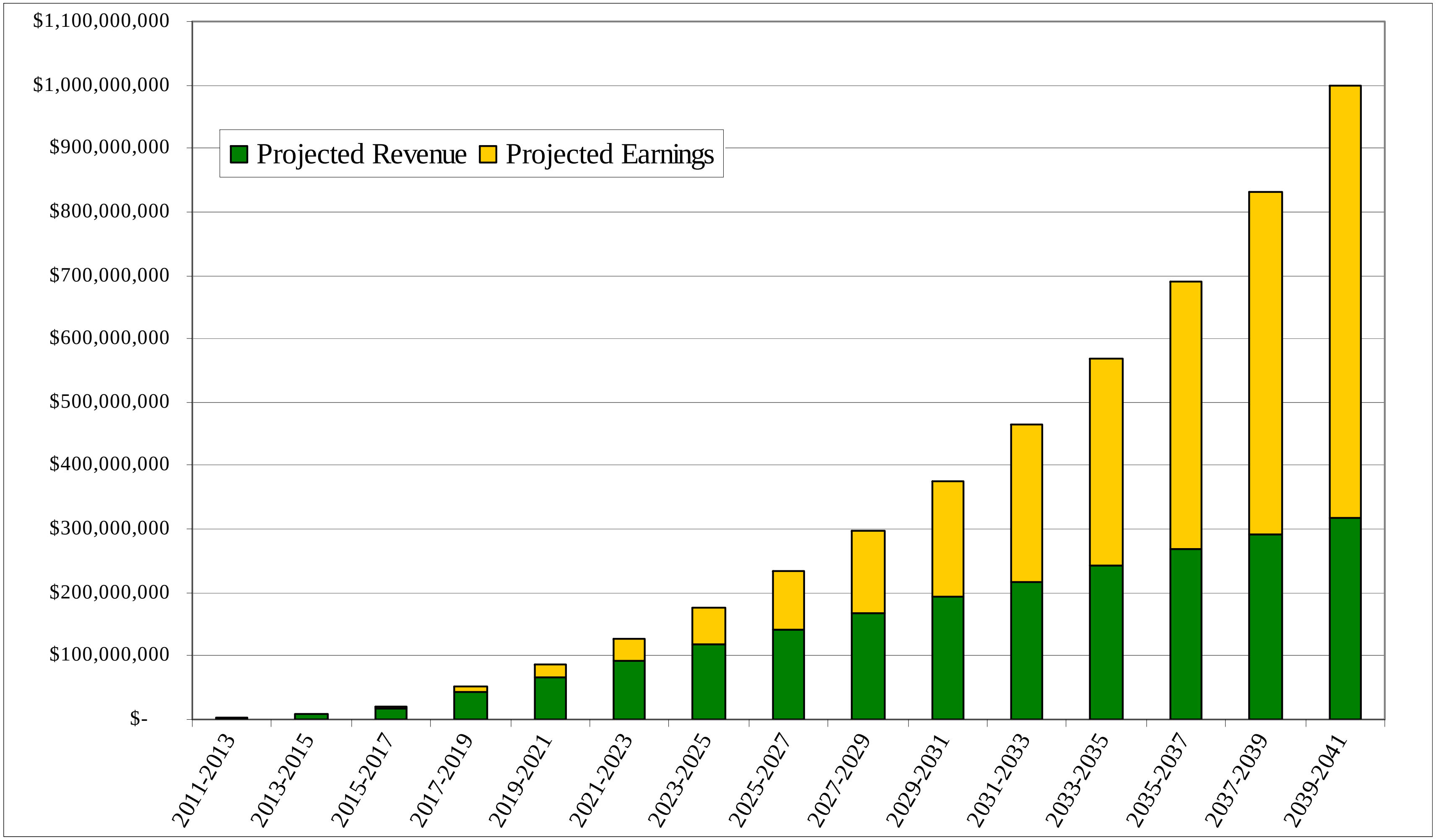
- As Passed
  - Biennial appropriation
  - Revenue “phased-in” 2011 - 2017

Revenue Stream

Revenue for L2 Benefit Improvement Account:

- September 30, 2011: $2.5 million
- September 30, 2013: $5 million
- September 30, 2015: $10 million
- September 30, 2017: $25 million

Projected Revenue Stream and Earnings



Contractual Rights

Is revenue stream a contractual right?

- “Probably Yes”

- Weaver requires systematic funding as part of Bakenhus “contract”
- Similar revenue stream in CA which Supreme Court said was contractual right
- Untested in Washington courts

Approving Benefit Improvements

I-790 created two benefit approval processes

1. Benefits recommended by Board to Legislature
   - Only process ever used by Board
   - Process required to be used for benefits funded from revenue stream
2. Board adopts improvements, rejected or approved by Legislature

Funding Benefit Improvements

- Revenue stream can pay for multiple benefits
- Can approve benefits based on present value of future revenue
- Contribution rates used for costs not covered by revenue stream

Alternate Revenue

Questions?

Alternate Revenue Source

Final Report

March 26, 2008

1. Issue

An alternate revenue source is necessary to providing funding for future benefit improvements. Researching alternate revenue sources was identified as a key tactic for achieving the Board's priority goals of enhancing benefits for the members and maintaining the financial integrity of the plan.

2. Proposal Summary

Create an alternate revenue stream through an annual appropriation by the Legislature. The revenue from this source would be directed into a sub-account of the LEOFF Plan 2 trust fund and be invested as part of the commingled trust fund the same as other LEOFF Plan 2 assets. The assets would not be recognized by the State Actuary until directed to do so by future action.[1]

3. Staff

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4. Members Impacted

Alternate Revenue Source potentially impacts all members and retirees of LEOFF Plan 2. As of September 30, 2006 there were 15,718 active members and 779 retirees as reported in the Office of the State Actuary's 2006 LEOFF Plan 2 Actuarial Valuation Report.

5. Current Situation

LEOFF Plan 2 has two sources of revenue, contributions and investment earnings. Contributions are collected as a percentage of pay from the members (8.64%), employers (5.19%), and the State (3.45%). The actual rate of investment return on the market value of assets was 15.76% as reported in the 2006 Actuarial Valuation Report and the market value of assets was reported as just over $4.3 billion.

[1] Option 3 with a funding policy change to direct the revenue in to a sub-account

The total revenue as indicated by the change in market value of assets during 2005-2006 totaled $748 million ($84 million employee contribution, $85 million employer/state contribution, $577 million investment returns, $2 million in restoration). Using the aggregate method, LEOFF Plan 2 is 100% funded.

6. Background Information and Policy Issues

Board Strategic Plan

The LEOFF Plan 2 Retirement Board established several priority goals in the 2004-2009 strategic plan. Two of those priority goals were to “enhance benefits for the members” and “maintain the financial integrity of the plan”. Researching alternate revenue sources was identified as a key tactic for achieving both of these priority goals.

As part of the “enhance benefits for the members” goal, the Board has held hearings on several benefit enhancements that have been frequently requested by members within the plan. A list of the most frequently requested improvements and estimated costs can be found in Appendix A.

LEOFF Plan 2 Funding and Revenue

As stated in the 2004 LEOFF Plan 2 Actuarial Valuation by the Office of the State Actuary, the funding policy contained in statute outlines the intent to achieve the following goals:

- To provide a dependable and systematic process for funding benefits to members and retirees;
- To continue to fully fund LEOFF Plan 2 as provided by law;
- To establish long-term employer contribution rates that will remain a relatively predictable proportion of the future state budgets; and
- To fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members’ service.

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Broad Perspective of Funding and Revenue

Nationally, opinions are mixed on the financial integrity of public pension plans. As a group, state and local pension systems reportedly have nearly 90 percent of the funds required for each dollar they owe in liabilities. However, this still represents a funding gap between assets and liabilities of more than $260 billion. Individually, many plans are in poor financial shape. One report on public plan funding identified retirement systems in 13 states that had actuarial assets that were less than 75 percent of actuarial liabilities.

Financial problems have occurred in many plans for a variety of reasons including poor investment returns, overly generous benefit enhancements granted during good market times, increasing number of retirements, contribution rate holidays, and some states "failures to properly fund their plans". Keith Brainard, Research Director for the National Association of State Retirement Administrators recently commented with regard to the market crash, plan funding levels, and benefit improvements; "The funding levels of many plans declined so suddenly, that pretty much brought to a halt the discussion of benefit enhancements. That doesn't mean that it's going to be gone forever, but for the time being, that seems to have gone off the table as systems focus more on restoring their funding levels."

Consequently, many states are reviewing different strategies for addressing pension funding issues. Beyond the stock market's rebound following the market crash, some pension plans have sought alternate revenue sources.

Alternative Revenue Sources

Although most of the consideration given to alternate revenue focuses on shoring up unfunded liabilities, some plans have alternate revenue sources as a means to pay for benefits. These sources are normally ongoing sources used for funding existing benefits or paying for enhanced benefit packages. Common alternative revenue sources (beyond contributions and investment earnings) include premium taxes on property, casualty, and fire insurance; sales tax; and property tax levies.

Other sources that have been utilized less frequently include the dedication of lottery or gaming revenues, pension obligation bonds, and transfer of state assets (such as real estate) to the pension fund. Appendix B provides examples of various funding mechanisms used in several other states.

Examples of tax based revenue sources exists in Washington State for the Firemen's Pension Fund (Pre-LEOFF), the Volunteer Fire Fighters' and Reserve Officers' Relief and Pensions, and the First Class City Police Relief and Pension Fund (Pre-LEOFF).

Washington State Firemen's Pension Fund

The Washington State Firemen's Pension Fund pre-dated the current LEOFF System. Although commonly referred to as if a single pension fund, the Firemen's Pension Fund is actually many separate pension funds that were created in the treasury of each eligible municipality. A municipality for this purpose was defined as a city or a town that established a regularly organized full time, paid, fire department employing firemen prior to March 1, 1970 (Establishment of LEOFF). Fire districts were added to the Firemen's Pension Fund chapter in 1955 and provided the same rights as municipalities.

Over the lifetime of the fund, benefits have been funded by five sources: (1) gifts & bequests, (2) contributions, (3) investment earnings, (4) fire insurance premium taxes, and (5) property tax levies. The following sections discuss the fire insurance premium tax and the property tax revenue resources in more detail.

Washington State Insurance Premium Tax

Insurance premiums are exempt from the Business & Occupation tax and are subject to an insurance premium tax instead. As authorized under RCW 48.14.020, the state collects a two percent tax on the premiums of almost all insurance policies written. The insurance premiums tax is estimated to generate $495.9 million in the 2005-07 biennium and comprises 1.9% of general fund revenues. Except for a portion of the premium tax on fire insurance policies, all of the insurance premium taxes go into the state general fund. [2]

Fire Insurance Premium Tax

A portion of the insurance premium tax collected on fire insurance related policies are distributed to cities/towns and fire districts that have obligations under the Firemen's Pension Fund. This distribution includes premium taxes from fire insurance policies, the fire portion of homeowner's policies, and the fire portion of commercial multiple peril policies.

Beginning in 1947, the pension fund received 45% of the fire insurance premium tax. In 1999, the amount received by the fund was reduced to 25%. The other 20% was reallocated to the fire service training account. The total allocation of the fire insurance premium tax is discussed in a later section.

How is the fire insurance premium tax calculated and how much is collected?

The following shows the computation for the 2006 Fire Insurance Premium Tax distribution. The Fire Insurance Premium Tax distribution is derived by the Office of the Insurance Commissioner (OIC) using the premiums collected from the previous calendar year.

The first part of the distribution is calculated from fire insurance polices:

Policy Type	Premiums	×	Rate	=	Distribution
Fire Insurance	$106,831,500	×	2%	=	$2,136,630

The distributable amount from Homeowners and Commercial Multiple Peril insurance premiums is then calculated. Only premium taxes attributable to fire losses are included. Premium taxes attributed to losses from such things as burglaries, tornadoes, floods, etc., are not shared. OIC arrive at the percentages attributable to fire losses for Homeowner and

[2] *An overview of Washington's Tax Structure*, Senate Committee Services, May 1, 2006.

Commercial Multiple Peril policies using the loss ratios for fire losses obtained from various insurance statistical service organizations.

POLICY TYPE	FIRE LOSS RATIO
Homeowners	41.04%
Commercial Multiple Peril	18.50%

The premium tax for homeowner and commercial multiple peril policies are multiplied by the loss ratio to determine the distributable amount.

Policy Type	Premiums	×	Rate	=	Premium Tax	×	Loss Ratio	=	Distribution
Homeowners	$1,022,911,700	×	2%	=	$20,458,234	×	41.04%	=	$8,396,059
Com. Multi. Peril	$657,154,800	×	2%	=	$13,143,096	×	18.50%	=	$2,431,473

The total amount of the fire insurance premium tax to be distributed is then calculated by adding all three distribution amounts together.

Fire Insurance Premium Tax Distribution	
2% of Fire Insurance Premiums	$2,136,630
Homeowners Fire Loss	$8,396,059
Commercial Multiple Peril Fire Loss	$2,431,473
Total 2006 Distribution	**$12,964,162**

How is it allocated?

The State Treasurer distributes the Fire Insurance Premium Tax to four entities as follows:

40% - Volunteer Firefighters' Relief and Pension Plan (RCW 41.24.030)
25% - Firemen's Pension Fund Cities (RCW 41.16.050)
20% - Fire Service Training Account (RCW 43.43.944)
15% - State General Fund

Appendix C lists the eligible municipalities and districts with the amounts to be received from the 2006 distribution (25% of total) to the Firemen's Pension Fund cities.

Volunteer Firefighters' Relief and Pension Fund

The Washington State Volunteer Firefighters' Relief and Pension Plan receives 40% of the Fire Insurance Premiums Tax. According to the 2004 Volunteer Firefighter's Pension and Relief Fund Actuarial Valuation, the entire fire insurance premium tax is deposited into the benefit fund, in addition to revenues from investment earnings, member contributions, and employer contributions. Administration and expenses are then paid out of the fund.

During 2004, the administration and expenses ($385,000) were 8.1% of the $4,726,000 received from the fire insurance premium tax. If compared to their total 2004 revenue ($18,242,000), administration and expenses was 2.1% of total revenue.

Automobile, Property and Casualty Insurance Premium Tax

According to information received from the Office of the Insurance Commissioner, the following insurance premium taxes were collected for the tax year 2005:

Policy Type	Premiums	Premium Taxes
Property & Casualty	$3,795,415,338	$72,764,309.62
Automobile	$3,982,672,560	$79,845.633.70

Property Tax Levy ("Millage Tax")

In addition to the Fire Insurance Premium Tax, the Firemen's Pension Fund can also receive tax based revenues from a property tax. At its inception, the Firemen's Pension Fund's only tax based revenue source was a property tax that was assed in "mills". Hence, this property tax was called the "millage tax". Although the property tax today is levied in dollars rather than mills, the property tax is still often referred to as the "millage tax".

The amount of the property tax has been modified several times as follows:

Year	Amount
1909	½ of one mill until the municipalities fund reached $25,000
1917	½ of one mill on each dollar of assessed value
1947	1 mill on all taxable property and an additional mill could be levied if necessary to meet the needs of the fund
1970	½ of one mill on all taxable property and an additional ½ of one mill could be levied if necessary to meet the needs of the fund.
1973	$0.225 per thousand of assessed value and an additional $0.225 per thousand of assessed value can be levied if necessary to meet the needs of the fund.

Currently, the property tax authorized for the Firemen's Pension Fund contemplates a total tax levy up to $0.45 per thousand of assessed property value.

The law states that a city, town, or district which has an obligation under the Firemen's Pension Fund is required to assess a property tax of $0.225 per thousand dollars of assessed value as part of the municipality's regular property tax levy. This part of the tax is often referred to as a "mandatory tax". However, there is a condition that if a report by a qualified actuary on the condition of the fund establishes that the whole or any part of the levy is not necessary to maintain the actuarial soundness of the fund, the levy may be omitted, or the whole or any part of said dollar rate may be levied and used for any other municipal purpose.

An <u>additional</u> property tax of $0.225 can be levied if necessary to meet the needs of the fund. This is often referred to as the "additional tax". The additional tax, like the mandatory tax, may also be omitted or used for other municipal purposes if it's established that the additional levy is not needed by the fund. As authorized by statute and supported in Attorney General Opinions, it appears that that additional $0.225 tax levy can be in excess of the $3.60 maximum levy.

Maximum Property Tax Levy

The maximum levy for most cities and towns is $3.60 ($3.375 general purposes + 0.225 Firemen's Pension Fund) per thousand dollars of Assessed Valuation (subject to the referendums and initiatives that have passed which directly - indirectly impact property tax rates and how they are calculated). For cities and towns that belong to a fire district and/or library district the rules for assessing property taxes are a little more complicated. Nominally they have a maximum regular rate of $3.60 per thousand dollars of assessed value. But they may not be able to collect that much because the levy of special districts (e.g., Fire & library) must be subtracted from the maximum regular levy of $3.60.

The library district regular levy has a maximum rate of $.50 per thousand dollars assessed value and the fire district regular levy can be $1.50. If a city or town belongs to a fire district and a library district, and if these districts are currently levying their maximum regular amount, then the local regular levy can be no higher than $1.60 ($3.60 - $1.50 - $.50). If, for some reason, one of the special districts is not currently levying the maximum amount, the city's current regular levy could be higher but the combined taxing authorities can be no more than $3.60 per thousand of AV.

Property Tax Levy Use

There are several questions surrounding the property tax levy and its use. The questions have largely been addressed by Attorney General Opinions (AGO). Collectively, there are at least sixteen opinions that address the property tax for Firemen's Pension Fund under RCW 41.16.060. While there are numerous AGO on this topic, it must be noted that most of these opinions were issued in the 1950's, 1960's, and 1970's. While the answers contained within these AGO still appear to be good and valid, subsequent changes in the statutes could affect their validity. The following addresses the aforementioned questions with reference to the AG responses.

Who can issue the levy?

Various Attorney General Opinions (AGO) appear to support that a city, town, or district that did not have an established fire department with a Firemen's Pension Fund prior to March 1, 1970 does not have the taxing authority to issue the $0.225 property tax levy or the addition $0.225 additional property tax levy.

The Attorney General (AG) issued letter opinion in 1973, that a city or town which does not have a regularly organized full time, paid, fire department is not authorized to levy the property tax provided for by RCW 41.16.060 (AGLO 1973 N0. 93). The AG issued an opinion in 1977 which states a municipality that first created a full-time, paid fire department after March 1, 1970, may not levy the tax (AGO 1977 No. 7).

As established in 1947, the municipal Firemen's Pension Fund had no applicability to fire protection districts (AGO 1949-51 No 402, AGO 1961-62 No 023). In 1955, the Legislature amended the pension fund with the intent of allowing paid firemen of a fire protection district to come under the 1947 pension fund law. However, the 1955 legislation did not contain any indication of how that was to be practically accomplished in terms of mechanics and funding. This was later rectified in 1961 making it clear, prospectively, that those fire protection districts which maintained full-time, paid, fire departments employing firemen were eligible to establish a Firemen's Pension Fund, and thereby gained pertinent taxing authority (AGO 1961-62 No. 023).

Does the property tax have to be levied?

In the case of both the mandatory tax and the additional tax, both levies are actually considered mandatory when necessary to maintain the actuarial soundness of the fund (AGO 1955-57 No. 119). However, if the tax is not necessary for the fund the statute provides that the tax may be omitted or used for other municipal purposes. The AG did caution in a 1951 opinion that while an actuarial report and examination were not required in order to levy the tax, such an examination and report would be necessary before deciding not to levy the property tax (AGO 1951-53 No. 34).

Can the levy be used for other purposes?

At least six Attorney General Opinions (AGO) discuss the use of the property tax for other municipal purposes. The earliest and perhaps the most direct discussion on the point of other uses for the property tax is found in AGO 1961-62 No. 40 which states on page 4:

> "Assuming then that a determination is in fact made that either or both the "mandatory" mill or the "additional" mill is unnecessary for pension fund purposes for a particular year how should the question of whether this millage may nevertheless be levied for other municipal purposes be answered? On this point we believe that the statute here under consideration is plain, clear, and unambiguous. In essence it provides that if either or both the "mandatory" mill or the "additional" mill is determined to be unnecessary for pension fund purposes for a particular year, then, ". . . the levy of the mandatory or additional one mill may be omitted, or the whole or any part of such millage may be levied and used for any other municipal purpose."
>
> In other words, upon a determination that if the tax is unnecessary for pension fund purposes for a particular year, the municipality has the alternative of omitting the levy in whole or part, or of levying the tax in whole or part to be used for other municipal purposes.

Echoing this, AGO 1977 No. 007 provides that in the "absence of a necessity to levy the additional millage (now dollar) rate authorized by the statute to meet the needs of the pension fund…RCW 41.16.060 still authorizes the levying of that tax for other municipal purposes."

Three AGO address the lawful use of funds once they have been placed in a Firemen's Pension Fund. The opinions provide that the lawful use of monies in a Firemen's Pension Fund include paying service retirement or disability benefits to eligible members under said fund and the medical expenses incurred by LEOFF Plan 1 fire fighters as authorized by RCW 41.26.150. As part of this specific discussion, the AG identifies a distinction between the use of monies already placed in a fund and the use of the property tax levy before the monies are placed in the fund. AGO 1977 No. 007 states on page 6:

> "It is most certainly true that the revenues of this tax, once placed in a municipal Firemen's Pension Fund, are not to be used for any purpose other than that of paying the pension benefits provided by chapters 41.16 and 41.18 RCW or for medical services as provided by RCW 41.26.150, supra. However there is nothing in any of those statutes which suggests that RCW 41.16.060 is in any way modified insofar as it allows the additional tax, under certain specified circumstances, also to be levied and used for other municipal purposes in which case (we assume) the revenues derived therefrom would not be placed in the pension funds in the first instance; instead, they would then immediately be placed in some other municipal fund as is appropriate in view of the other municipal purpose involved."

Lastly, the AG issued an opinion about the use of excess monies in a Firemen's Pension Fund once the municipality no longer had an obligation under the fund or could show that the funding level was in an excess of the estimated needs of the program. The opinion argued that under current law excess monies in a pension fund could not be transferred out of the fund to the city, town, or district; however, they did recognize that the Legislature could amend the law to authorize such transfers (AGO 1981 No. 007).

Who is levying the tax and how much is being collected?

It is unknown which municipalities may be charging the millage tax and how much is being collected. The Department of Revenue only tracks the total property tax assessed in each municipality and does not track the $0.225 as a separate part of municipality property taxes.

However, potential scope of the tax can be projected by looking at the property taxes for the forty-five cities that are eligible for the fire insurance premium tax. If all of the eligible cities had charged the $0.225 tax in 2006, the revenue generated based on 2006 assessed property values ($284,807,760,168) would have been approximately $64,081,746.04.

First Class City Police Relief and Pension Fund

The First Class City Police Relief and Pension Fund receives revenue, beyond salary reductions, from funds collected for all licenses issued and from fines and forfeitures collected or received for violation of city ordinances.

Public Safety and Education Account

The Public Safety and Education Account (PSEA) was created by the Court Improvement Act of 1984. This act was created to simplify more than 30 statutes which governed court fees, fines, forfeitures, and assessments. The PSEA replaced the existing fees structure with a single assessment of 60% on criminal fines, forfeitures, and penalties ordered by the district and municipal courts. (Later, the assessment was raised to 70%). The total amount, including fines and assessment, is then split between the state and local jurisdiction 32%/68%. An additional 35% assessment on all fines, forfeitures and penalties goes entirely to the state. Monies in the PSEA account are to be used for a variety of purposes as specified in RCW 43.08.250 (See Appendix D: Public Safety and Education Account).

According to the preliminary Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2006 provided by the Office of Financial Management, the PSEA had total revenues of $81,654,593 and total expenditures of $78,992,879. The PSEA preliminary 2006 ending fund balance was $1,174,388.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Public Safety and Education Account (02V)
For the Fiscal Year Ended June 30, 2006 *(Preliminary)*

Revenues:	**Totals**
Retail sales and use taxes	(41)
Federal grants from Department of Justice	4,809,213
Charges for services	242,737
Investment income (loss)	273,198
Miscellaneous revenue	76,329,486
Total Revenues	81,654,593
Expenditures:	
General government	37,184,600
Human services	39,614,390
Natural resources and recreation	261,328
Transportation	1,756,384
Capital outlays	114,856
Debt service - principal	57,457
Debt service - interest	3,864
Total Expenditures	78,992,879
Excess of Revenues Over Expenditures	2,661,714
Other Financing Uses: Transfers (out)	(1,022,524)
Net change in fund balance	1,639,190
Fund Balance - Beginning	(464,802)
Fund Balance - Ending	$1,174,388

Streamline Sales Tax (SST)

Washington State and 45 other states impose retail sales and use taxes. These taxes are imposed on the retail sale or use of most items of tangible personal property and some services. The rates, definitions, and administrative provisions relating to sales and use taxes vary greatly among the 7,500 state and local taxing jurisdictions. This variety is one reason states have been prohibited from requiring mail-order, and by extension internet, firms to collect sales tax unless they have a physical presence in the state.

An effort was started in early 2000, by the Federation of Tax Administrators, the Multistate Tax Commission, the National Conference of State Legislatures, and the National Governors Association, to simplify and modernize sales and use tax collection and administration nation-wide. The effort is known as the Streamlined Sales Tax Project (SSTP).

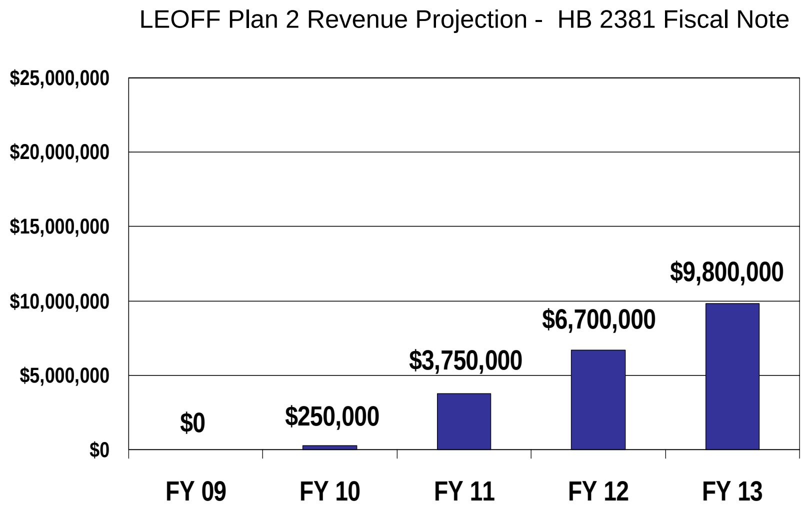
In the 2002 Legislative Session, the Legislature adopted the Simplified Sales and Use Tax Administration Act, which authorized the Department of Revenue (DOR) to be a voting member in the SSTP. Many other states have also authorized such participation, and representatives have met to develop an agreement to govern the implementation of the SSTP. This agreement, called the Streamlined Sales and Use Tax Agreement (SSUTA), was adopted by 34 states and Washington, D.C., in November 2002. In Washington State the agreement is referred to as the Streamlined Sales Tax (SST)

During the 2003 Legislative Session, the Legislature enacted legislation at the request of the DOR to implement the uniform definitions and administrative provisions of the SST. However, the legislation did not implement several provisions that are necessary for the state to conform fully to the SSUTA, including a provision that would require the state to change its local sales and use tax sourcing rules. Under the sales and use tax laws in Washington, local sales and use taxes are sourced on an origin based system.

To date, there are 15 full members of the SSUTA and six associate members. Full members are those states that have fully complied with the agreement and associate members are those states that are expected to comply by January 1, 2008. Substitute Senate Bill 5089 (2007), signed into law March 22, 2007, conforms Washington law to the SST. The bill allows a remote seller (a seller with no physical presence in Washington) to register under the SST and begin collecting sales taxes on behalf of the state. Currently, remote sellers are not legally required to collect Washington state sales taxes. Allowing remote sellers to collect Washington state sales tax represents a new revenue source for the state.

SST as an Alternate Revenue Source

House Bill 2381, introduced near the end of the 2007 Legislative session, would have impacted LEOFF Plan 2 by effectively creating a new funding source for the system. The bill directed the State Treasurer to transfer the lesser of "voluntary compliance revenue" or $6.25 million to the LEOFF 2 trust fund each quarter beginning January 2009. "Voluntary compliance revenue" is the net gain in state sales tax revenue from participation in the SST after deducting mitigation amounts provided to local governments for revenue losses (due to sourcing change) under the SST. The bill also directed the State Treasurer to transfer the lesser of "voluntary compliance revenue" or $6.25 million to local governments for unspecified public safety purposes each quarter beginning January 2009. No more than $12.5 million for both purposes would be transferred during a calendar quarter. The transfer was to be divided equally between local jurisdictions and LEOFF Plan 2. In their fiscal note, the Department of Revenue projected that the voluntary compliance revenue generated and allocated to LEOFF Plan 2 would be approximately $20.5 million for fiscal years 2010 through 2013.



Funding Policy Issues

The reliability of the revenue source is a key consideration in determining a funding policy. An assumption on the level of on-going revenue and a funding policy concerning the recognition of that revenue are required to determine the impact of the additional funds on the plan. A reliable estimate for the projected amounts of on-going revenue may or may not be available depending on the source of the revenue.

Another key consideration is the use of the additional revenue. Transferring additional funds to the LEOFF 2 trust fund, without a dedicated purpose (such as funding a benefit improvement), will decrease the on-going contribution requirements of the plan.

Although the current funding policy addresses the recognition of liabilities, the current policy is silent with respect to recognition of additional revenue. Thus, the State Actuary would require direction from the Legislature or the Board on the recognition of additional revenue.

Funding Policy Options

The *funding policy options* that might be considered range from (a) recognizing the present value of all projected revenue today (pre-recognition of the revenue), (b) recognizing the revenue as it is received (receive-as-you-go) to (c) directing the revenue into a sub-account to hold the funds and not recognizing the revenue until directed by future legislation.

Under a policy of pre-recognition of the revenue, required contributions would be lowered in anticipation of future revenue and associated investment earnings. Required contributions would gradually decrease under a receive-as-you-go recognition policy. Directing the revenue into a sub-account and not recognizing until directed in the future has no immediate impact on contribution rates.

7. Policy Options – Revenue Source

- **Option 1: Increase the Fire Insurance Premium Tax**
  This option would increase the 2% fire insurance premium tax currently assessed on fire loss related insurance policies. Increasing the fire insurance premium tax by an additional 1% would generate approximately $6.48 million per year in revenue. Increasing the fire insurance premium tax by 2% would generate approximately $12.96 million per year in revenue. These estimates are based on the 2006 Fire Insurance Premium Tax collection calculated from 2005 premium collections. The amount of revenue could vary year to year depending on changes in insurance premium collections.

  This option would require statutory changes. In addition to changes for increasing the insurance premium tax, changes would be required to adjust the distribution allocation so the current recipients continue to receive the same amount of funding and direct the newly generated revenue to a source or sources (which must be defined) where it can be used for LEOFF benefits.

- **Option 2**: **Expand authority for property tax levy**
  This option would extend the property tax levy authority under the Firemen's Pension Fund to LEOFF Plan 2 employers including cities, towns, fire protection districts, and counties. This option would also expand the permissible uses of the levied tax to include funding LEOFF Plan 2 benefits.

  Based on property taxes due for 2006, extending the levy authority to include all cities, towns, counties, and fire districts would allow the generation of approximately $304,455,958 per year. This total includes $94,024,824 from cities and towns (an increase of approximately $30 million over the current level that could be generated), $66,750,164 from fire protection districts and $143,680,970 from counties. These revenue figures do not account for the complicated rules that exist for assessing property taxes that occur with overlapping property jurisdictions. In particular, complexities occur with overlapping cities/towns, fire protection districts and library districts. The figures also do not account for any referendums and initiatives that have passed in specific jurisdictions which may directly or indirectly impact property tax rates and how they are calculated. Therefore, the total amount of revenue that might be generated is undetermined.

  This option would require statutory changes to allow all cities, towns, fire districts and counties to assess the levy and to expand the permissible usage of the revenue to include LEOFF Plan 2 benefits.

- **Option 3: Streamlined Sales Tax**
  This option would use revenues generated by the Streamlined Sales Tax as a revenue source for LEOFF Plan 2. Directing half of the voluntary compliance revenue in the LEOFF Plan 2 fund has been projected to generate up to $20.5 million during fiscal years 2010 through 2013. Several funding policy issues must be addressed such as how to use the revenue, how to recognize the revenue, and where to direct the revenue. This option would require legislative action.

  As addressed by the Office of the State Actuary in their fiscal note, HB 2381 did not specify how the addition of a new funding source to the trust fund would affect existing funding policy for LEOFF Plan 2.

- **Option 4: State Appropriation**
  This option would create a revenue stream through a state appropriation by the Legislature. The appropriation would be an annual appropriation but would not be tied to a dedicated revenue source. The inclusion of a specific appropriation in each budget would eliminate the uncertainty that exists under the SST approach of how much revenue would be received and when, but the appropriation would not have a dedicated revenue source so the appropriation could be subject to change in future Legislative budgets.

  This option would require budget approval. This option also may require statutory change to provide the State Actuary with direction on the recognition of the additional revenue.

8. 2008 Legislative Update

The 2008 Legislature passed Engrossed Substitute Senate Bill 6573 providing additional revenue to LEOFF Plan 2 for benefit improvements and to local government for defined public safety purposes. See Appendix E for a summary of the legislation and discussion of issues related to the bill.

9. Supporting Information

<u>**Appendices**</u>

- **Appendix A: Frequently Requested Benefit Improvements**
- **Appendix B: Alternate Revenue Source Examples**
- **Appendix C: Distribution of Fire Insurance Premium Tax – RCW 41.16**
- **Appendix D: Public Safety And Education Account**
- **Appendix E: Alternate Revenue Bill (ESSB 6573) summary and issue discussion**

Appendix A: Frequently Requested Benefit Improvements

Frequently Requested Benefit Improvement	Total Rate Impact[1]	2007-2009 Est. Cost
Increase multiplier to 3.00% - all service	17.58%	$444 m
Reduce FAS period from 5 years to 2 year - all service	2.64%	$66.2 m
Normal retirement with 20 years of service	2.80%	$34.9 m
No cost joint and 100% survivor benefit	6.54%	$162 m
Retiree health care benefits through PEBB	3% - 16%	

[1] Total Rate Impact is the combined rate to be paid by members, employers, and the State; Members pay 50% of the total rate impact, employers pay 30%, and the state pays 20%.

Appendix B: Alternate Revenue Source Examples

State/System	Alternate Funding Source
California California State Teachers Retirement System	• State makes annual contributions equal to a percentage of teacher's compensation to the "Supplemental Benefits Maintenance Account • Ensures that retired teachers benefits would not erode due to inflation • California Courts ruled the revenue stream as contractually enforceable promise by the state
Colorado Volunteer Fire Fighters	• Volunteer plans receive funding from property tax revenues, moneys paid or given to the funds, and state matching funds. State matching funds come from insurance premium tax proceeds.
Florida Municipal Police & Fire	• Participating cities and special fire control districts are eligible to receive annual distributions of state premium tax collections on property and casualty insurance policies written within the city/district limits or boundaries of the participating plan. • The amount of premium taxes collected is equal to 1.85% of all property insurance written within the city limits or boundaries (in the case of fire districts) of the participating plan. • A 0.85% tax is levied on all casualty insurance premiums written within the city limits of the participating plan. These amounts transferred to the Police Officers' and Firefighters' Premium Tax Trust Fund. • These funds are then available for distribution on or before July 1 to the participating pension plans on an annual basis, once the plan has been determined to be in compliance with all applicable statutory requirements. Further funding for these plans is provided by employee contributions, other revenue sources and employer contributions.
Idaho Firefighters Retirement Fund	• Funding is paid by member contributions, employer contributions and receipts from a fire insurance premium tax.

<table>
<tr><th>State/System</th><th>Alternate Funding Source</th></tr>
<tr><td>Illinois

Fire Fighter Pension for Cities over 500,000</td><td>Each city shall levy a tax annually upon all taxable property therein for the purpose of providing revenue for the fund.
The city shall levy a tax annually at a rate on the dollar of the value, as equalized or assessed by the Department of Revenue of all taxable property within such city that will produce, when extended, not to exceed an amount equal to the total amount of contributions by the employees to the fund made in the calendar year 2 years prior to the year for which the annual applicable tax is levied, multiplied by 2.23 through the calendar year 1981, and by 2.26 for the year 1982 and for each year thereafter.
To provide revenue for the ordinary death benefit, the city council levies a tax, which is in addition to and exclusive of the taxes authorized to be levied upon all taxable property in the city at such rate per cent of the value of such property as shall be sufficient to produce for each year the sum of $142,000.</td></tr>
<tr><td>Oklahoma

Teacher’s Retirement Fund</td><td>The employer contribution rate includes 3.75% of sales, income and other taxes collected by the state, which represents approximately 4.7% of the system membership payroll. School districts contribute 7.05%. The Oklahoma Legislature in 2005 approved a bill dedicating a portion of lottery revenues.
Earmarked (for $6 billion in pension liabilities) a 5% portion, estimated at $3.1 million this year, of the state's new lottery approved by voters last year.</td></tr>
<tr><td>Rhode Island</td><td>City of Newport Utilizes City’s share of hotel/motel tax revenue as dedicated pension revenue source.

A 2004 state proposal outlined a series of potential revenue streams to inject into the pension plans to increase overall assets, thereby reducing the projected unfunded pension liabilities. These include:
Fiscal Fitness Proposals – Using the proceeds from the sale of State properties to buttress the State pension systems rather than permitting the resources to transfer to the State’s General Revenue Fund.
Gaming Revenues – Dedicating net growth in State gaming revenues to the pension system. Half of the funds would go to reduce the unfunded liability and the other half to reduce the Employer contribution.
Surplus Funding Proposal – Earmarking surplus funds to reduce the pension Capital Fund liability. Fifty percent of any State end-year balance that exceeds $30.0 million would be earmarked. In other</td></tr>
</table>

<table>
<tr><th>State/System</th><th>Alternate Funding Source</th></tr>
<tr><td></td><td>words, $0.50 of every $1.00 the State has in surplus in excess of $30.0 million would go to the State’s pension systems.
Capital Fund Accounts – Redirecting funds from the State’s Sinking Fund (designed for debt relief) and the State Capital Fund to reduce the unfunded liability.
Municipal Pension Plans – Exploring whether municipalities can redirect over-funded pension assets to teacher pensions to reduce the teacher unfunded liability.</td></tr>
<tr><td>Washington

Firemen’s Pension Fund RCW 41.16 (Pre-LEOFF)</td><td>The state collects a two percent tax on the premiums of all insurance policies written. Twenty-five percent of the tax collected on fire policies and the fire component of homeowner's and commercial multi-peril policies, are distributed to cities and fire districts that have Firemen’s Pension Funds. Premiums that attributed to losses from such things as burglaries, tornadoes, floods, etc., are not shared with cities. For the homeowner's and commercial multi-peril policies, actual data is collected on the loss experience due to fire as a percent of total losses. These percentages are then applied to the total premium taxes collected from these policies to get the taxes attributed to the fire component. In 2005 the state distributed $3,004,755.02 to cities and districts from the fire insurance premium tax.
Funding sources:
All bequests, fees, gifts, emoluments, or donations given or paid thereto;
twenty-five percent of all moneys received by the state from taxes on fire insurance premiums;
taxes paid pursuant to the provisions of RCW 41.16.060;
interest on the investments of the fund; and
Contributions by fire fighters as provided for herein.
If a report by a qualified actuary establishes that all or any part of the additional twenty-two and one-half cents per thousand dollars of assessed value levy is unnecessary to meet the estimated demands on the fund under this chapter for the ensuing budget year, the levy of said additional twenty-two and one-half cents per thousand dollars of assessed value may be omitted, or the whole or any part of such dollar rate may be levied and used for any other municipal purpose</td></tr>
</table>

State/System	Alternate Funding Source
Washington First Class City Police Relief and Pension RCW 41.20(Pre-LEOFF)	• At the time the annual tax levy of the city is made, the city council, or other legislative body, shall order the transfer of an amount of money into the fund, sufficient with the salary deductions, to meet the financial requirements thereof: (1) From moneys collected or received from all licenses issued; (2) From fines and forfeitures collected or received in money for violation of city ordinances.
Washington RCW 41.26.040 – Creation of LEOFF	• All funds held by any firemen's or policemen's relief and pension fund shall remain in that fund for the purpose of paying the obligations of the fund. The municipality shall continue to levy the dollar rate as provided in RCW 41.16.060, and this dollar rate shall be used for the purpose of paying the benefits provided in chapters 41.16 and 41.18 RCW. The obligations of chapter 41.20 RCW shall continue to be paid from whatever financial sources the city has been using for this purpose.

Washington
RCW 41.24.030 – Volunteer Firefighters' Relief and Pension Fund
	• Funding sources:
	  • Bequests, fees, gifts, emoluments or donations
	  • Annual fees from members and/or employers. Membership includes firefighters, reserve officers and emergency workers.
	  • 40% of all moneys received by the state from taxes on fire insurance premiums are paid into the administrative fund. The current tax on fire insurance premiums is 2% of the premium amount.

West Virginia	• A Fire Protection Fund receives one-half of one percent of insurance premium state-wide annually and distributes a prescribed amount to each qualifying fire department. The insurance premium tax generated $350,000 in 2004 for the fund. • Recent state proposal to sell $5.5 billion in pension obligation bonds to fund the state's teachers, state police and judicial pension programs.

Appendix C: Distribution of Fire Insurance Premium Tax – RCW 41.16

Each city/district is receiving approximately $741 per active fire fighter. This amount will change year to year depending on the change in total fire fighters and variation in the fire tax premium total. There are 45 cities and 3 districts eligible for the fire tax distribution.

City/District	Number of Paid Firefighters as of January 1, 2006	Amount
Aberdeen	35	$25,940.18
Anacortes	18	13,340.67
Auburn	76	56,327.25
Bellevue	190	147,488.47
Bellingham	130	96,349.25
Bothell	49	36,316.26
Bremerton	56	41,504.29
Camas	36	26,681.33
Centralia	20	14,822.96
Chehalis	13	9,634.92
Edmonds	52	38,539.70
Ellensburg	21	15,564.11
Everett	179	132,665.50
Hoquiam	23	17,046.41
Kelso	12	8,893.78
Kennewick	75	55,586.11
Kent	149	110,431.06
Kirkland	75	55,586.11
Longview	42	31,128.22
Lynnwood	55	40,763.14
Mercer Island	29	21,493.29
Moses Lake	21	15,561.11
Mount Vernon	35	25,940.18
Olympia	79	58,550.70
Pasco	47	34,833.96
Port Angeles	23	17,046.41
Port Townsend	10	7,411.48
Pullman	31	22,975.59
Puyallup	55	40,463.14
Raymond	13	9,634.92
Redmond	133	98,572.69
Renton	105	77,820.55
Richland	56	41,504.29
Seattle	998	739,665.77

City/District	Number of Paid Firefighters as of January 1, 2006	Amount
Shelton	7	5,188.04
Spokane	277	205,298.01
Sumner	20	14,822.96
Sunnyside	13	9,634.92
Tacoma	398	297,976.93
Toppenish	5	3,705.74
Tukwila	62	45,951.18
Vancouver	179	132,665.50
Walla Walla	46	34,092.81
Wenatchee	34	25,199.03
Yakima	80	59,291.85
King County #2	37	27,422.48
King County #10	120	88,937.77
Spokane County #1	145	107,466.47
Totals	**4,373**	**$3,241,040.49**

Source: Municipal Research and Services Center of Washington

Appendix D: Public Safety and Education Account

RCW 43.08.250 Public safety and education account — Use.

(1) The money received by the state treasurer from fees, fines, forfeitures, penalties, reimbursements or assessments by any court organized under Title 3 or35 RCW, or chapter 2.08 RCW, shall be deposited in the public safety and education account which is hereby created in the state treasury. The legislature shall appropriate the funds in the account to promote traffic safety education, highway safety, criminal justice training, crime victims' compensation, judicial education, the judicial information system, civil representation of indigent persons under RCW 2.53.030, winter recreation parking, drug court operations, and state game programs. During the fiscal biennium ending June 30, 2007, the legislature may appropriate moneys from the public safety and education account for purposes of appellate indigent defense and other operations of the office of public defense, the criminal litigation unit of the attorney general's office, the treatment alternatives to street crimes program, crime victims advocacy programs, justice information network telecommunication planning, treatment for supplemental security income clients, sexual assault treatment, operations of the administrative office of the courts, security in the common schools, alternative school start-up grants, programs for disruptive students, criminal justice data collection, Washington state patrol criminal justice activities, drug court operations, unified family courts, local court backlog assistance, financial assistance to local jurisdictions for extraordinary costs incurred in the adjudication of criminal cases, domestic violence treatment and related services, the department of corrections' costs in implementing chapter 196, Laws of 1999, reimbursement of local governments for costs associated with implementing criminal and civil justice legislation, the replacement of the department of corrections' offender-based tracking system, secure and semi-secure crisis residential centers, HOPE beds, the family policy council and community public health and safety networks, the street youth program, public notification about registered sex offenders, and narcotics or methamphetamine-related enforcement, education, training, and drug and alcohol treatment services.

(2)(a) The equal justice subaccount is created as a subaccount of the public safety and education account. The money received by the state treasurer from the increase in fees imposed by sections 9, 10, 12, 13, 14, 17, and 19, chapter 457, Laws of 2005 shall be deposited in the equal justice subaccount and shall be appropriated only for:

(i) Criminal indigent defense assistance and enhancement at the trial court level, including a criminal indigent defense pilot program;

(ii) Representation of parents in dependency and termination proceedings;

(iii) Civil legal representation of indigent persons; and

(iv) Contribution to district court judges' salaries and to eligible elected municipal court judges' salaries.

(b) For the 2005-07 fiscal biennium, an amount equal to twenty-five percent of revenues to the equal justice subaccount, less one million dollars, shall be appropriated from the equal justice subaccount to the administrator for the courts for purposes of (a)(iv) of this subsection. For the 2007-09 fiscal biennium and subsequent fiscal biennia, an amount equal to fifty percent of revenues to the equal justice subaccount shall be appropriated from the equal justice subaccount to the administrator for the courts for the purposes of (a)(iv) of this subsection.

Appendix E: Alternate Revenue Bill Summary and Issue Discussion

Bill Summary

As summarized in the Legislatures Final Bill Report, beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer shall transfer, subject to appropriation, funds for transfer to a new Local Public Safety Enhancement Account (LPSEA).

The amounts of the transfers to the LPSEA are: $5 million for 2011; $10 million in 2013; $20 million in 2015; $50 million in 2017; and in subsequent fiscal biennium the lesser of one-third of the general revenue increase amount or $50 million. General state revenues means total revenues to the General Fund-State less state revenues from property taxes.

Half of the funds moved to the LPSEA are to be transferred to a new Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF 2 Retirement Fund. The amounts of the transfers to the Benefits Improvement Account are: $2.5 million for 2011; $5 million in 2013; $10 million in 2015; $25 million in 2017; and in subsequent fiscal biennium the lesser of one-third of the general revenue increase amount or half of the $50 million.

Money transferred to the Benefits Improvement Account can only be used to fund benefits adopted by the Legislature. The cost of financing a benefit on an actuarial present value of fully projected benefits is calculated by the State Actuary and if the present value of filing projected revenue to the Account is sufficient to meet the new and existing obligations of the Account, then it may be funded from the Account.

The State Investment Board (SIB) is authorized to adopt investment policies and invest the money in the Benefits Improvement Account.

The Board has the sole authority to authorize disbursements from the Benefits Improvement Account, and to establish all other policies relating to the Benefits Improvement Account, which must be administered in an actuarially sound manner. Funds in the Benefits Improvement Account may not be considered assets of the plan and are not included in contribution rate calculations by the State Actuary until so directed by the Board for purposes of financing benefits adopted by the Board. The LEOFF 2 Board is required to include sufficient funds from the Account in the LEOFF 2 Fund to meet benefit obligations within 90 days of the fund's transfer into the Account.

The State Treasurer is responsible for the distribution of the remaining funds in the LPSEA to local governments. Each jurisdiction's allocation is proportionate to the share of LEOFF 2 membership that it employs. In the event that two jurisdictions have a contract for the provision of law enforcement or fire protection services, the two parties must agree on a revenue sharing arrangement before funds will be distributed. The LPSEA funds may only be used for the purposes of enhancement of criminal justice services, information and assistance programs for families of at risk or runaway youth, or other public safety purposes, and may not supplant existing expenditures by local jurisdictions for those purposes.

Issue Discussion

Several issues arose while the bill was being worked through the legislature. This discussion highlights those issues and provides answers to questions that have been asked about the legislation. There were five specific where issues were considered including the revenue trigger, revenue stream, contractual rights, approving benefit improvements, and funding benefit improvements.

Revenue Trigger

A "trigger" is used to determine when the alternate revenue stream will be appropriated. The trigger is a specified increase in the general fund state (GFS) revenues. In the original bill, the trigger required a 1% annual growth in the GFS revenues. The revenue trigger was amended in the bill and increased whereby in the bill as passed by the legislature, the appropriation would only be triggered if there is a 5% biennial increase in the GFS.

A review of GFS biennial revenue history from the Department of Revenue back to the 1963-65 biennium shows that the 5% biennium revenue growth trigger has not been attained only once during the 2001-2003 following the events September 11, 2001 and market downturns.

Revenue Stream

The revenue stream was amended in a couple different manners prior to final passage of the legislation. The original legislation called for annual appropriations of up to $50 million (to be split between local government and L2). These appropriations were to begin in 2009.

As passed, the legislation provides for biennial appropriations (instead of annual) and takes a "phased-in" approach to the revenue stream where specified appropriations would be made starting in 2011 and in each subsequent biennium if the revenue trigger was achieved. The maximum amount allowed under the revenue stream would be reached by the 2017-19 biennium. Under the scheduled amounts, the LEOFF Benefit Improvement account could receive $2.5 million in 2011, $5 million in 2013, $10 million in 2015, $25 million in 2017 and each subsequent biennium. Again this is half of the total revenue stream (the other half allocated to local government) and would only be appropriated when the revenue trigger is met for a specific period.

Although the benefit improvement account would only accrue $42.5 million between 2011 and 2017, the long term projected revenue and earnings over 30 years could approach the $1 billion level.

Contractual Rights

The question of contractual rights with respect to the alternate revenue stream was raised. The House of Representatives attempted to amend the legislation to state that the revenue stream was not a matter of contractual right nor part of the systematic funding of the pension plan, but the amendments were defeated. As to the question if the revenue stream is a matter of contractual rights, the answer is probably yes. Previous Washington case law can be used to support this position. The key Washington case which establishes pensions as a matter of contractual right is Bakenhus. A second key case is Weaver which requires that the systematic funding of a plan as part of the "contract" under Bakenhus.

Additionally, the California State Teachers Retirement System (CalSTRS) were granted a similar general fund state revenue source for providing plan benefits. The State attempted to reduce the funding level provided by the revenue source and were sued for violation of contractual obligation. The California courts ruled in favor the teachers and upheld the revenue source as a matter of contractual right. There is no case on point in Washington so it is uncertain how a Washington court would rule on this issue.

Approving Benefit Improvement

Questions were raised about the process by which benefits funded by the revenue stream could be approved for the plan. Initiative 790 provided two processes for benefit improvements to be approved.

Under the first process, the Board makes recommendation to the Legislature for benefit improvements. This is the only process that the Board has used for seeking benefits improvements. This is also the process that is required to be used for benefits to be funded out of the revenue stream.

The second process allows the Board to adopt benefit improvements and then requires the Legislature to either wholly approve or reject the benefit. Although allowed through the initiative, this process may raise certain legal questions and has never been utilize by the Board.

Funding Benefit Improvements

Questions were also raised about how the funding source could be used to pay for benefits. The first question asked if the revenue could be used to pay for multiple different benefits or could only be used to pay for one specific benefit. The alternate revenue legislation does allow the revenue stream to pay for multiple different benefits.

Another question asked if a benefit could be approved based on the present value of future revenue from this source or if the full value of benefit improvement had to be accumulated in the fund first. The legislation does allow for the use of the present value of the future revenue for to pay for a benefit improvement. The Office of the State Actuary is currently on calculating the present value of the alternate revenue stream from the 2008 legislation.

The last question raised asked what happens if the revenue stream turns out not to be enough to the cover the cost of the approved benefit improvement. If this becomes the case, the existing contribution rate structure will be used to make up any shortfall in the plan funding to ensure that the fund remains actuarially sound.

2008 Legislative Update

Washington State Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

March 26, 2008

Overview

- Board Bills – Did Not Pass
- Joint Bills – Did Not Pass
- Related Legislation

Board Legislation – Did Not Pass

- Deferred Compensation (HB 3049 & SB 6635)

Joint Legislation – Did Not Pass

- Military Death Benefit (HB 3007 & SB 6646)
- Interruptive Military Service Credit (HB 3008 & SB 6645)
- FWEO Service Credit Transfer (HB 3023 & SB 6653)
- $150,000 Death Benefit (HB 3026 & SB 6664)

Related Legislation

- Medicare Only Benefits (HB 2510) – passed
- L&I Survivor Benefits (HB 1545) – did not pass
- Port Fire Fighter Membership (HB 2134) – did not pass
- Occupational Disease Presumption for MSRA (HB 3331) – did not pass

2008 Legislative Update

Questions?

2008 Legislative Update

LEOFF Plan 2 Retirement Board Recommended Bills - Passed

Bill Title	Bill Number	Summary
Alternate Revenue	ESSB 6573	Provides additional shared revenues to LEOFF Plan 2 and local jurisdictions on a biennial basis when general state revenues increase by more than five percent. The revenue stream is phased-in between 2011 - 2017, starting at five million dollars up to fifty million by September 30, 2017 and beyond.

LEOFF Plan 2 Retirement Board Recommended Bills – Did Not Pass

Bill Title	House Bill	Senate Bill	Summary
Deferred Compensation as Salary	HB 3049	SB 6635	Modifies the definition of basic salary to include employer contributions to 457 deferred compensation plans. Effective July 1, 2012 to allow existing contracts to expire and new contracts to be negotiated under the new definition of basic salary.

Joint Legislation with the Select Committee on Pension Policy – Did Not Pass

Bill Title	House Bill	Senate Bill	Summary
Military Service Death Benefit	HB 3007	SB 6646	Eliminates the early reduction factor for the survivor of a member who left the employ of a retirement system-covered employer due to service in the National Guard or military reserves, and who dies while honorably serving in a defined period of war.
Interruptive Military Service Credit	HB 3008	SB 6645	Eliminates the member obligation to pay for interruptive military service credit if the member served during a period of war. Employers will still be required to pay the employer contributions on the service. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit.
Fish and Wildlife Service Credit Transfer	HB 3023	SB 6653	Provides Fish & Wildlife Enforcement Officers with the opportunity to transfer their past service as Enforcement Officers from PERS Plan 2 to LEOFF Plan 2.
$150,000 Death Benefit Inflation Adjustment	HB 3026	SB 6664	This bill indexes the amount of the death benefit to cumulative changes in the Consumer Price Index for Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton, with a maximum increase of 3% per year.

2008 Legislative Update

Related Legislation - Passed

Bill Title	House Bill	Senate Bill	Comments
Medicare Only Health Insurance Benefits	HB 2510	None	Obtain coverage through a divided referendum process that shall extend coverage to law enforcement officers, firefighters, and employees of political subdivisions of this state, who have membership in a qualified retirement system, allowing them to obtain Medicare coverage only (HI-only). In such a divided referendum process, those members voting in favor of Medicare coverage constitute a separate coverage group.

Related Legislation – Did Not Pass

Bill Title	House Bill	Senate Bill	Comments
L&I Remarriage Prohibition for LEOFF Plan 2	HB 1545	None	Removes the remarriage restriction for survivors of LEOFF Plan 2 members. For remarriages that occur after the effective date of the bill, the survivor benefits will continue for life.
Port Membership in LEOFF Plan 2	HB 2134	None	Ensures LEOFF membership to any person who meets the definition of fire fighter and is a full-time employee of a port district.
Presumptive Occupational Disease – (MRSA)	HB 3331	None	Establishes the prima facie presumption under RCW 51.32.185 that certain infectious diseases are occupational diseases is extended to cover any fire fighter who has contracted methicillin-resistant staphylococcus aureus (MRSA).