



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director *JAM*

RE: Designated Interim Commission Topic: Local Retirement Plan Consolidation Assistance Fund Creation – Second Consideration

DATE: August 4, 2009

Introduction

As a topic for consideration by the Legislative Commission on Pensions and Retirement during the 2009-2010 interim, at the request of Representative Paul Thissen, Commission Chair Senator Don Betzold has designated a review of the policy considerations of creating a state-funded local retirement plan consolidation assistance fund.

The interim topic is an outgrowth of inconclusive Commission deliberations on S.F. 914 (Betzold); H.F. 1100 (Thissen), proposed legislation to consolidate the Minneapolis Employees Retirement Fund (MERF) into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General). A major remaining issue from the deliberations over the MERF consolidation bill was to determine the amount of additional funding required to cover the actuarial cost of a potential MERF consolidation and to identify the financial resources to meet that cost.

This is the second consideration of the topic by the Commission. The Commission staff believes that the topic will require at least four considerations by the Commission. The initial Commission staff memorandum provided background information on past retirement plan consolidations in Minnesota. This Commission staff memorandum will summarize some Commission staff conclusions on the past legislative practice in designing pension plan consolidations, the topic of the initial consideration of the topic and will provide as background information relevant to the study a description of and a history of the current state aid programs related to retirement plans or retirement coverage.

Subsequent Commission staff memoranda on the topic would be an identification of local Minnesota retirement plans currently with funding problems, a review of the experiences of other states in establishing and operating relief funds for consolidating local retirement plans or retirement plans in fiscal distress as part of the second consideration, and a review of options for the creation of the Minnesota local pension plan consolidation fund.

Summary of Commission Staff Observations Related to the July 2, 2009, Initial Commission Staff Memorandum Relating to Past Pension Plan Consolidations

- a. Consolidation Issue in Context. The Commission interim study arose principally out of the 2009 proposed legislation providing for a consolidation of the Minneapolis Employees Retirement Fund (MERF) into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General).

The interim study raises questions about what lessons past consolidations have to teach the Commission (the topic of the July 8, 2009, meeting) and about what lessons the current state funding programs for local pension obligations have to teach the Commission (the topic of the August 12, 2009, meeting).

The July 2, 2009, issue memorandum covered the question of the number, the circumstances surrounding, and the nature of past public pension plan consolidations that were mandated by or authorized by the Minnesota Legislature.

The August 2009 issue memorandum will cover the question of past state pension aids. Future issue memoranda are anticipated to cover the question of identifying local public retirement plans with problematic financing or with similar issues that may be amenable to consolidation as a solution and the question of what efforts that other states may have taken to assist local public retirement plan consolidations.

- b. Past Consolidations. Past public pension plan consolidation efforts undertaken by the Legislature may be the basis for future public pension plan consolidations and may affect the state interest in providing additional state funding in the event of consolidation

There have been numerous public pension plan consolidations in Minnesota. The July 2, 2009, issue memorandum covered 17 consolidations or public retirement plan replacements and similar events. The July 2, 2009, memorandum excluded two consolidations of a purely local nature, the Crystal-New Hope volunteer fire relief association consolidation and the Norwood-Young America volunteer fire relief association consolidation, both accomplished by local legislation.

The consolidation of public pension plans is a long-term practice in Minnesota, covering 78 years, although all but one consolidation occurred in the most recent 42 years.

The consolidations of Minnesota public pension plans reflect one or more of five likely motivating events, issues, or concerns. The likely motivations identified by the Commission staff for past public pension plan consolidations, with example consolidations, are:

1. Actual Benefit Payment Default or Imminent Benefit Payment Default.

- The replacement of the 1915 Teachers Insurance and Retirement Fund by the Teachers Retirement Association (TRA) in 1931 was the result of actual or expected benefit defaults caused by the Great Depression.
- The 2006 consolidation of the former Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA) was the result of expected near-term benefit defaults by the MTRFA.

2. Reconfiguration of Benefit Plan Coverage or the Extension of Benefit Plan Coverage for a Particular Type of Employee.

- The 1961 replacement of the Game Warden Retirement Plan by the State Police Retirement Plan extended public safety employee-type retirement plan coverage to Bureau of Criminal Apprehension officers, who had general employee benefit plan coverage (State Employees Retirement Association (SERA)) previously.
- The 1967 replacement of the Attorney General Retirement Plan and the State Auditor Retirement Plan by the Elective Officers Retirement Plan eliminated two unfunded pension plans and extended retirement coverage to all constitutional officers.
- The 1969 consolidation of the State Police Retirement Plan into the State Patrol Retirement Plan functioned to reorganize public safety employee-type pension coverage for virtually all state level public safety employees.
- The 1973 replacement of the five prior judicial retirement plans (three judge plans and two survivor plans) with a Uniform Judicial Retirement Plan and the 1978 consolidation of five pre-1973 retirement accounts in the state general fund into the Uniform Judicial retirement fund reorganized the retirement coverage for all judges.

3. Obtain Reduced Ongoing Pension Cost.

- The 1969/1973 consolidation of the St. Paul Bureau of Health Retirement Plan into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) replaced a costly local retirement plan with a less costly, larger risk pool, statewide retirement plan.
- The 1973/1978 judges plans consolidation replaced costly separate retirement plans with a single, larger risk pool, statewide retirement plan.
- The 1978 University of Minnesota Police Retirement Plan consolidation into the Public Employees Police and Fire Retirement Plan (PERA-P&F) replaced a costly local retirement plan with a less costly, larger risk pool, statewide retirement plan.
- The 1979 consolidation of the Minneapolis Employees Retirement Fund (MERF) Coordinated Program into PERA-General continued the replacement of a costly local retirement plan with a larger risk pool, statewide retirement plan when the consolidation of the entirety of MERF was impossible to achieve legislatively.

- The 1985 consolidation of the Moorhead Fire Relief Association and the Moorhead Police Relief Association into PERA-P&F replaced two costly local retirement plans with a larger risk pool, statewide retirement plan.
- The 1987 police and paid fire relief associations consolidation into PERA law, covering 44 eventual consolidation accounts, over the period 1987-1998, replaced costly local retirement plans with eventual access to a larger risk pool, statewide retirement plan.

4. Improved Benefit Coverage.

- The 1973 Fridley Fire Relief Association, the 1973 Cloquet Fire Relief Association, the 1978 Brooklyn Center Police Relief Association, the 1978 University of Minnesota Police Retirement Plan, the 1985 Moorhead Police Relief Association, and the 1985 Moorhead Fire Relief Association consolidations into PERA-P&F replaced a less generous retirement benefit plan with a more generous retirement benefit plan, based on comparative normal costs.
- The 1977-1978 shift of the active memberships of the Eveleth Police Relief Association, the Eveleth Fire Relief Association, and the Thief River Falls Police Relief Association to PERA-P&F replaced a less generous retirement benefit plan with a more generous retirement benefit plan, based on comparative normal costs.
- The 1978 consolidation of the Metro Transit-Transit Operating Division Retirement Plan into the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) replaced a less generous retirement benefit plan with a more generous retirement benefit plan, based on comparative normal costs.

5. Achieve Actuarial/Accounting Status Restructuring.

- The 1999 merger of the 44 PERA local police and paid fire consolidation accounts into PERA-P&F folded the affected individual municipality self-insured retirement accounts into a single multiple-employer, cost-sharing and liability-pooling retirement fund.

c. Actuarial and Funding Considerations in Past Pension Plan Consolidations. Pension fund consolidations represent a conjoining of two prior separate liability pools and asset accumulations, with the resulting whole frequently negatively impacted by the process unless some funding equalization is required.

In past consolidations, funding and actuarial concerns evidenced by the Legislature in the consolidation legislation has varied considerably. The Commission staff has found some generalizations in past consolidations, with examples.

1. Early Consolidations Evidenced Little Actuarial Sophistication. Consolidations before the 1970s contained few or no provisions relating to the funded condition of the resulting retirement fund, probably because there was little actuarial awareness or actuarial sophistication on the part of the Legislature at the time.
 - Thus, with the replacement of the 1915 Teachers Insurance and Retirement Fund by the Teachers Retirement Association (TRA), no funding equalization was required by the consolidation legislation and no specific or general actuarial work was required at the time.
 - Similarly, no funding equalization was included in the consolidation legislation for the 1967 consolidation of the Attorney General Retirement Plan and the State Auditor Retirement Plan into the Elective State Officers Retirement Plan or in the consolidation legislation for the 1973/1978 Judges Plan replacement by consolidation into the Uniform Judicial Retirement Plan and Fund.
2. Limited Actuarial Considerations Where the State is the Direct or Indirect Employer. Where the employer, directly or indirectly, of the affected retirement coverage group is the State of Minnesota, little or no concern is evidenced in the consolidation legislation over the funding impact of the consolidation.
 - Thus, with the 2006 consolidation of the former Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA), no additional asset transfer or additional Special School District No. 1 employer contribution requirement was included in the consolidation legislation to avoid any decline in the TRA funding ratio.

3. Later Consolidations that Did Not Involve the State as Direct or Indirect Employer Generally Required Funding Equalization Measures. In consolidation legislation after the 1960s where the State of Minnesota was not the direct or indirect employer, the consolidation legislation generally requires the provision of additional assets upon or after consolidation in order to equalize the funding ratio of the consolidated retirement plan and fund with the recipient/successor retirement plan and fund.
 - Thus, in the 1973 consolidation of the St. Paul Bureau of Health Retirement Plan, the City of St. Paul was required to provide additional assets to equalize the extent of funding of liabilities of the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), with special provisions for determining the post-consolidation actuarial liabilities.
 - Similar additional asset provision or contribution requirements were included in the 1973 Fridley Fire Relief Association, the 1973 Cloquet Fire Relief Association, the 1978 Metro Transit-Transit Operating Division Retirement Plan, the 1978 Brooklyn Center Police Relief Association, the 1978 University of Minnesota Police Retirement Plan, the 1985 Moorhead Police Relief Association, and the 1985 Moorhead Fire Relief Association consolidations.
 - Allowable service credit grants were adjusted to match the funding ratio condition of the Public Employees Police and Fire Retirement Plan (PERA-P&F) for the transfers of the active members of the Eveleth Police Relief Association and of the Eveleth Fire Relief Association.
 - Additional contributions for a ten-year period were also required for municipalities with underfunded PERA local police and paid fire consolidation accounts upon their 1999 merger into PERA-P&F.
4. No Past Consolidation was Directly Connected with a Newly Established State Aid Program. Past consolidations of public pension plans have not been the source of newly established state pension paid programs, although the 2006 former Minneapolis Teachers Retirement Fund Association (MTRFA) consolidation into the Teachers Retirement Association (TRA) was accompanied with an increase in general state education aid to offset an employer contribution rate increase in the legislation, with also included a benefit increase for TRA.

Minnesota State Aid Programs Related to Public Pension Plan Coverage

- a. In General. Minnesota has provided funding from state-raised revenue for almost 125 years, resulting in the current existence of 16 different state aid and related programs to public pension plans or to associated local government entities on account of public pension costs.

The different state pension aid and comparable programs, are as follows:

1. Fire state aid.
2. State funding of teacher retirement and categorical aids.
3. First class city fire insurance premium tax surcharge.
4. Police state aid.
5. Minneapolis Employees Retirement Fund (MERF) state contribution.
6. Volunteer fire lump sum supplemental benefit state reimbursement.
7. Local police and paid fire relief association amortization state aid.
8. Supplemental police and paid fire amortization state aid.
9. Pre-1974 retiree MERF special post-retirement adjustment aid.
10. 1993 state supplemental MTRFA/SPTRFA contributions.
11. 1996 state supplemental MTRFA/SPTRFA/DTRFA contributions.
12. Ambulance service personnel longevity award and incentive state aid.
13. Minimum volunteer firefighter fire state aid.
14. Additional police and fire amortization state aid.
15. 1997 state supplemental first class city teacher retirement fund association funding.
16. 1997 state aid for the PERA-General employer contribution rate increase.

None of the various state pension aid and comparable programs was created in connection with any pension plan consolidations, but all of the state pension aid and related programs were intended to assist the funding of pension programs with significant financial needs.

b. Minnesota State Pension Aid Programs

1. Fire State Aid.

- (a) Establishment. The fire state aid program was initially established in 1885 (Laws 1885, Ch. 187). The program is codified in Minnesota Statutes, Sec. 69.011-69.051.

The fire state aid program was initially intended to assist municipal and other fire departments in obtaining firefighting equipment and in providing firefighter pension coverage. Subsequently, in 1943 (Laws 1943, Ch. 323) and in 1945 (Laws 1945, Ch. 225), fire state aid was dedicated to fund a firefighter relief association if a relief association exists and was available for firefighting equipment or firefighting facility purposes only if no firefighter relief association exists.

The Minnesota Insurance Department was created in 1872 and Minnesota was one of the first states to regulate the insurance business. A. R. McGill, of St. Peter, was the Insurance Commissioner in 1885, when the fire state aid program was created, and became Governor of Minnesota for one term in 1887.

- (b) Source of Fire State Aid Revenue. The fire state aid program is funded from a premium tax on various types of minimum coverage, primarily fire insurance. The 1885 law established a one-half of one percent tax on insurance premiums for property located in municipalities having a fire protection service. Laws 1903, Ch. 20, raised the tax to the two percent premium tax level and specified uses for the money raised. The funds were to be used both to provide retirement and disability benefits to fire department members and their survivors, and to help maintain the fire department, including covering purchase and maintenance costs of fire equipment.

Before 1995, the fire state aid program was financed from the dedicated proceeds of a broadly applicable two percent premium tax on fire, lightning, sprinkler damage, and extended coverage insurance on property located within the state. Minnesota Statutes 1994, Sec. 60A.15, Subd. 1, imposed a premium tax on fire and related insurance of two percent for most insurance companies, and one-half of one percent for town and farmer's mutual insurance companies and mutual property and casualty insurance companies with assets less than \$1.6 billion on December 31, 1989. The fire state aid under Minnesota Statutes 1994, Sec. 69.021, Subd. 5, Para. (b), was funded by an appropriation equal to the amount of fire and related insurance premium taxes collected. Half of the total fire state aid amount was distributed in proportion to the population according to the last federal census and half was distributed in proportion to property market values, excluding mineral values but including tax-exempt property. This allocation method reflected an assumption that local property values and population relative to the whole state reflect the relative need for fire protection services. Before 1995, the last major revision in the insurance premium tax rates underlying the fire state aid program occurred in 1988 (Laws 1988, Ch. 719, Art. 2, Sec. 1-5) when the fire and related insurance premium tax rates were reduced for certain mutual insurance companies. Before 1995, the last major revision in the amount of state tax revenue available for allocation as fire state aid occurred in 1991 (Laws 1991, Ch. 291, Art. 13) when the appropriation for the fire state aid program was reduced to the amount of the insurance premium taxes raised.

In 1988 (Laws 1988, Ch. 719, Art. 2, Sec. 1 to 5), the Legislature began altering the fire insurance premium tax base, the fire insurance premium tax rates, and the relationship between tax revenues and fire state aid. As of 1987, the Minnesota tax system gave preferential treatment to a segment of Minnesota companies. Minnesota mutual insurance companies, including township and farmers' insurance companies, paid a premium tax of two percent of the premiums for Minnesota properties on fire, lightning, and sprinkler damage leakage premiums. Other Minnesota-based insurance companies and all non-Minnesota-based insurance companies paid a two percent tax on a broader base of all premiums for any type of insurance written for Minnesota clients, except for certain marine insurance, including policies written on workers' compensation, automobile, aircraft, and the liability portion of homeowners insurance, commercial multiple peril insurance, farm owners multiple peril insurance, and the extended coverage fire policies.

In 1988, the Legislature created a uniform premium tax base for all insurance companies but created differential tax rates. The changes were in response to court cases from other

jurisdictions. A few years earlier, several insurance companies successfully challenged the state challenged the states of Alabama and North Dakota for giving domestic (located in that state) companies preferential premium tax treatment. The United States Supreme Court ruled the preference given to domestic companies in those states was discriminatory and unconstitutional, based on an equal protection argument. To avoid a similar successful challenge in Minnesota, the 1988 Legislature changed the insurance premium tax system, although it in effect substituted one form of discrimination for another. The Legislature created a uniform insurance premium tax base for all companies, but varied the tax rate according to the nature of the insurance products sold and the company's asset size. The premium tax base is the net premiums on all direct business received by the insurer in this state. To the premium tax base are applied the insurance premium tax rates. Life insurance companies, and other insurance companies having assets on December 31, 1989 of more than \$1.6 billion, were required to pay a two percent tax on the base. Other insurers were required to pay a lower tax rate. For those insurers subject to the lower base, the rate changes were phased in. On premiums paid on January 1, 1989, and before January 1, 1992, the tax was one percent. As of January 1, 1992, and thereafter, the rate was one-half of one percent.

The 1988 Legislature decided to insulate the fire state aid recipients from the changes in tax collections by severing the relationship between the tax collection amount and the aid distribution amount. Despite the tax rate and tax base change, the aid base and the rate used to compute the fire state aid was to remain the same. The Department of Revenue, using the information contained in the Minnesota Firetown Premium Reports, was to compute an amount of revenue equal to two percent of the reported premiums for fire, lightning, sprinkler leakage, and extended coverage policy premiums. The balance of the computed aid amount above the actual premium tax collections was appropriated from the state general fund through an open appropriation and distributed as fire state aid.

In 1991 (Laws 1991, Ch. 291, Art. 13), the Legislature reversed the policy of insulating fire state aid recipients from changes in tax collections and the tax amounts dedicated to the program were limited to the amount generated by the actual fire insurance premium tax rates in effect, which for mutual insurance companies under \$1.6 billion in assets as of December 1, 1989, is less than two percent on insurance premiums reported for fire, lightning, sprinkler damage, and extended coverage.

Also in 1991, the initial step in allocating fire state aid by apportioning the fire insurance premium tax proceeds between counties was eliminated. For the municipalities in some counties, the new procedure produced considerably lower fire state aid due to two effects, the within-county distributional effect and the effect of the treatment of "unprotected lands." The within-county distributional effect occurs in a county that has a relatively low population and where that population is not uniformly distributed within the county. Under the pre-1991 distributions, a relatively populated municipality in a sparsely populated county could receive a larger share of aid than it would in 1991 and later allocations. Also in 1991, the property value portion of the fire state aid distribution changed from being based on net tax capacity, exclusive of mineral values, to full market value, exclusive of mineral values and including tax exempt property values.

A few counties also had lower fire state aid under the post-1990 distributions because of the effect of a change in recognizing unprotected lands within the counties. Unprotected lands are areas that are not served by a qualifying fire department. Under the pre-1991 fire state aid allocations, property wealth and population in unprotected lands were reflected in the aid allocated to the county. This total county-level aid was then distributed only among the municipalities and fire protection districts. When the county-level allocation was eliminated in 1991, population and property wealth lying outside a municipality or fire protection district was no longer reflected. The municipalities and fire protection districts in counties with significant unprotected lands would lose fire state aid relative to earlier distributions. Most counties have little or no unprotected land and thus were not impacted by the different treatment of unprotected lands under the post-1991 allocation system. However, several counties have considerable unprotected lands, including Cook, Lake of the Woods, Koochiching, and Clearwater, causing this different treatment to have a major impact on the fire state aid received.

The 1995 Omnibus Tax Bill (Laws 1995, Ch. 264) increased the various insurance premium taxes and also increased the revenue available for the fire state aid program. Laws 1995, Ch.

264, Art. 9, Sec. 3, amending Minnesota Statutes, Sec. 60A.15, Subd. 1, increased the insurance premium tax rates for town and farmers' mutual insurance companies and for mutual property casualty companies with assets no greater than \$1.6 billion. The pre-1995 insurance premium tax rate for these mutual insurance companies was one-half of one percent of the amount of all premiums. The rate was increased by the 1995 Legislature to two percent of all life insurance premiums, one percent of all other insurance premiums for all town and farmers' mutual insurance companies and for the smaller mutual property and casualty companies (assets of no more than \$5 million) and 1.26 percent of all other insurance premiums for the larger mutual property and casualty companies (assets over \$5 million and no greater than \$1.6 billion). Laws 1995, Ch. 264, Art. 9, Sec. 5, amending Minnesota Statutes, Sec. 69.021, Subd. 5, increases the insurance premium tax revenue dedicated to the fire state aid program and the police state aid program. For the fire state aid program, the dedicated revenue is increased from the amount of insurance premium taxes collected on fire, lightning, sprinkler leakage, and extended coverage insurance, to the greater of either 107 percent of the fire, lightning, sprinkler leakage, and extended coverage insurance premium taxes collected or an amount equal to one percent of the fire, lightning, sprinkler leakage, and extended coverage premiums written by town and farmers' mutual insurance companies and by mutual property and casualty companies with assets not exceeding \$5 million and to two percent of the fire, lightning, sprinkler leakage, and extended coverage premiums written by all other fire risk insurers.

In 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 2 and 9), Minnesota Statutes, Sec. 69.021, Subd. 7, and 423A.02, were amended to implement a minimum fire state aid floor for volunteer fire-fighter relief associations that would otherwise receive a disproportionately small amount of fire state aid on a per-active-member basis (see Minimum Volunteer Fire State Aid in Item 13, below).

Total fire state aid has increased over time. The total insurance premium taxes paid to the State of Minnesota in 1880 were \$28.4 million. In 1902, fire insurance premium taxes totaled \$120,000, of which \$60,000 was allocated as fire state aid. In the past 20 years, fire state aid has shown both dramatic increases and dramatic decreases, as follows:

Fire State Aid					
Year	Total Fire State Aid	Percent Change	Year	Total Fire State Aid	Percent Change
1988	\$10,840,404	--	1999	\$16,682,376	3.7%
1989	10,923,145	0.8%	2000	17,265,502	3.5
1990	10,872,111	-0.5	2001	17,964,376	4.0
1991	10,491,446	-3.5	2002	19,912,608	10.8
1992	10,530,014	0.4	2003	24,339,059	22.2
1993	9,997,957	-5.1	2004	30,591,007	25.7
1994	10,665,543	6.7	2005	30,461,385	-0.4
1995	11,336,631	6.3	2006	32,357,893	6.2
1996	14,797,126	30.5	2007	28,299,538	-12.5
1997	15,148,160	2.4	2008	24,400,838	-13.8
1998	16,088,768	6.2			

- (c) Qualification Requirements for Receipt of Fire State Aid. From 1885 (Laws 1885, Ch. 187) until 1969, fire state aid was provided to municipalities that had an organized fire department upon the filing of a certificate by the municipal clerk stating that the fire department exists, stating that the fire department does not employ any minor under age 18, and indicating the fire department's water supply, the number of fire department organized companies, the number of fire department engines and trucks, the number of hose carts in use, and the number of hose feet in use.

In 1969 (Laws 1969, Ch. 1001), the qualifications for fire state aid were increased. Municipalities and independent nonprofit firefighting corporations using paid, volunteer, or a combination of paid and volunteer firefighters qualified to receive the aid. To determine which municipalities and independent nonprofit firefighting corporations qualify for the aid, the municipal clerk or the secretary of the nonprofit firefighting corporation, if appropriate, and fire chief certify by March 15 of each year to the Department of Revenue that a municipal fire department or nonprofit firefighting corporation exists which meets minimum required standards for the aid. These standards include a requirement that the fire department or nonprofit firefighting corporation be in existence at least one year, that it had at least ten paid

or volunteer firefighters, that it regularly scheduled meetings for training and equipment maintenance, that it had housing for fire apparatus, that it had a mechanism for sounding a fire alarm, that the department had at least one motorized fire truck of a minimum size and other necessary fire-fighting equipment, and that it be inspected by the State Fire Marshal. The 1969 fire state aid qualifications remain in force and were last reexamined by the Volunteer Firefighter Working Group assembled by the State Auditor in 2006.

- (d) Allocation of Fire State Aid. Initially, in 1885 (Laws 1885, Ch. 187), fire state aid was allocated to the various municipalities and independent nonprofit firefighting corporations based on the amount of fire insurance written in that firetown, as identified by the various insurance agents and insurance companies. Fire insurance companies were required, by the subsequent July 1, to complete an insurance commissioner form that listed the various towns entitled to receive fire state aid by reporting the amount of the prior year's annual fire insurance premiums received in each of the named towns, cities, villages or other municipal corporations. The allocation method eventually proved problematic, in part because of errors made by insurance company agents in identifying applicable firetowns. Fire insurance agents were not correctly identifying the firetown associated with each municipality and nonprofit firefighting corporation or with each property, and the resulting fire state aid allocations for some municipalities were consequently greatly overstated and for some municipalities were greatly understated.

In 1969 (Laws 1969, Ch. 1001), the allocation method was shifted to a combination of population ranking and property value ranking. The 1969 changes were proposed by a special working group operating under the auspices of the Legislative Research Committee. The special working group took extensive testimony from representatives of the firefighting community. The fire state aid apportionment method changed from a system based on the geographical location of the insured property to a system with the geographical location of the insured property to a system with one-half based on the relative population size, based on the last federal census, and one-half based on the relative property value. One half of the fire state aid was distributed in proportion to the population according to the last federal census and one half was distributed in proportion to property market values, excluding mineral values but including tax-exempt property. This allocation method reflected an assumption that local property values and population relative to the whole state reflect the relative need for fire protection services. The initial allocation was on a county basis and, within a county, on a firetown basis. Provision was also made for allocating the population and property value of firetowns served by more than one fire department.

In 1996, for municipalities and independent nonprofit firefighting corporations with wholly volunteer fire departments, an additional allocation of aid is made to bring the municipal or corporation total up to the minimum volunteer firefighter fire state aid amount multiplied by the total number of active volunteer firefighters to a maximum of 30 firefighters (see Minimum Volunteer Fire State Aid in Item 13, below).

Fire state aid is allocated to municipalities with only paid firefighters and to municipalities and nonprofit firefighting corporations with only volunteer (emergency on-call) firefighters or combinations or volunteer and paid firefighters. The following provides an indication of the split between paid firefighter departments and volunteer or partially volunteer and partially paid firefighter departments during the last 20 years, when the paid firefighter portion changed from 31 percent of the total fire state aid to 22.2 percent of the total fire state aid, and the increase or decrease in fire state aid by each grouping year to year during the period:

Fire State Aid
Allocations to Volunteer Firefighters/Paid Firefighters

Year	Total Fire State Aid	Percent Change	Aid to Volunteer Firefighters	Percent Change	Aid to Paid Firefighters	Percent Change
1988	\$10,840,404	--	\$7,528,581	--	\$3,311,823	--
1989	10,923,145	0.8%	7,601,263	1.0%	3,321,882	0.3%
1990	10,872,111	-0.5	7,508,647	-0.1	3,363,464	1.3
1991	10,491,446	-3.5	7,650,439	1.9	2,841,532	-15.5
1992	10,530,014	0.4	7,716,007	0.9	2,814,007	-1.0
1993	9,997,957	-5.1	7,349,215	-0.5	2,648,742	-5.9
1994	10,665,543	6.7	7,869,847	7.1	2,795,696	5.5
1995	11,336,631	6.3	8,405,060	6.8	2,931,571	4.9
1996	14,797,126	30.5	11,006,256	30.9	3,790,870	29.3

Fire State Aid
Allocations to Volunteer Firefighters/Paid Firefighters

Year	Total Fire State Aid	Percent Change	Aid to Volunteer Firefighters	Percent Change	Aid to Paid Firefighters	Percent Change
1997	15,148,160	2.4	11,476,519	4.3	3,671,641	-0.3
1998	16,088,768	6.2	11,976,222	4.4	4,112,546	12.0
1999	16,682,376	3.7	12,419,342	3.7	4,263,034	3.7
2000	17,265,502	3.5	12,879,980	3.7	4,385,522	2.9
2001	17,964,376	4.0	13,595,203	5.6	4,369,173	0.4
2002	19,912,608	10.8	14,930,886	9.8	4,981,722	14.0
2003	24,339,059	22.2	18,751,051	25.6	5,588,008	12.2
2004	30,591,007	25.7	23,697,864	26.4	6,893,143	23.4
2005	30,461,385	-0.4	23,422,794	-1.2	7,038,591	21.1
2006	32,357,893	6.2	24,934,530	-6.5	7,423,363	5.5
2007	28,299,538	-12.5	21,935,922	-12.0	6,363,616	-14.3
2008	24,400,838	-13.8	18,978,533	-13.5	5,422,305	-14.8

Over the 20-year period, despite the significant decreases that occurred in the last two years, the total fire state aid, the volunteer firefighter portion of fire state aid, and the paid firefighter portion of fire state aid have increased, with the total fire state aid increasing at an annual compound rate of 4.2 percent, with the volunteer firefighter fire state aid portion increasing at an annual compound rate of five percent, and with the paid firefighter fire state aid portion increasing at an annual compound rate of 2.5 percent.

- (b) Permissible Use of Fire State Aid. The 1885 fire state aid was payable to the city, town, village, or municipal corporation treasurer and was required to be placed in a special municipal fund and expended, first, for the support and relief of firefighters who were injured or disabled in the line of duty and, second, for equipping and maintaining the fire department.

In 1943, the fire state aid was dedicated solely to firefighter pension funding if the firefighters have pension coverage. For municipalities and nonprofit firefighting corporations where the associated firefighters do not have pension coverage, fire state aid must be used to maintain the fire department or purchase fire equipment.

2. State Funding of Teacher Retirement and Categorical Aids.

- (a) Establishment. State funding for teacher retirement began in 1915 (Laws 1915, Ch. 199), with the creation of the predecessor of the current Teachers Retirement Association (TRA), the Teachers Insurance and Retirement Fund. The initial state funding was the product of a statewide property tax levy. In 1967 (Extra Session Laws 1967, Ch. 32, Art. 3), with the passage of initial sales tax, state funding for teacher retirement shifted from a statewide property tax levy to an open and standing State General Fund appropriation and the state funding was extended to the first class city teacher retirement fund associations. In 1985 (First Special Session Laws 1985, Ch. 11), a categorical state aid program for teacher retirement and teacher Federal Insurance Contributions Act (FICA) costs was established to replace the prior open and standing State General Fund funding. In 1987 (Laws 1987, Ch. 398, Art. 1), effective for 1989, the state teacher retirement and FICA categorical aids were folded into the general state education revenue program.
- (b) Source of State Funding for Teacher Retirement. From 1915 to 1967, the state funding for the Teachers Insurance and Retirement Fund and its 1931 (Laws 1931, Ch. 406), successor, TRA, was derived from a state levied statewide property tax levy. From 1967, teacher retirement funding has been directly or indirectly from the State General Fund, initially from proceeds of the sales tax.
- (c) Qualification Requirements for State Funding of Teacher Retirement. No qualification requirements exist for a teacher retirement plan to receive state funding when it was paid to teachers retirement plans directly until 1985. Since 1985, state aid for teacher retirement has been payable to the employing unit rather than to the retirement plan, and the school district or other educational employer must qualify for general state education revenue to receive the retirement funding component.
- (d) Amount of State Funding for Teacher Retirement. The amount of direct or indirect state support for teacher retirement plans for the period 1932-2008 is as follows:

Teacher Retirement and Categorical State Aids

Fiscal Year	TRA		First Class City TRFA's		Fiscal Year	TRA		First Class City TRFA's	
	State Contribution	Percent Change	State Contribution	Percent Change		State Contribution	Percent Change	State Contribution	Percent Change
1932	\$66,258	--	--	--	1971	\$30,037,929	4.1%	\$7,672,998	8.8%
1933	162,702	145.6%	--	--	1972	32,825,824	9.3	7,512,250	-2.1
1934	125,743	-22.7	--	--	1973	34,735,383	5.8	8,382,017	11.6
1935	152,999	21.7	--	--	1974	36,231,289	4.3	9,414,700	12.3
1936	153,198	0.1	--	--	1975	40,402,544	11.5	4,959,692	-47.3
1937	254,998	66.4	--	--	1976	52,230,663	29.3	12,640,782	154.9
1938	232,485	-8.8	--	--	1977	56,129,914	7.5	13,042,867	3.2
1939	214,247	-7.8	--	--	1978	63,685,260	13.5	13,370,847	2.5
1940	200,852	-6.3	--	--	1979	66,536,924	4.5	13,923,190	4.1
1941	278,221	38.5	--	--	1980	73,925,149	11.1	15,997,589	14.9
1942	279,602	0.5	--	--	1981	75,523,764	2.2	16,171,346	1.1
1943	264,872	-5.3	--	--	1982	91,079,638	20.6	18,431,999	14.0
1944	319,648	20.7	--	--	1983	69,462,210	-23.7	14,260,903	-22.6
1945	263,381	-17.6	--	--	1984	102,643,811	47.8	20,255,585	42.0
1946	282,271	7.2	--	--	1985	125,067,070	21.8	12,141,631	-40.1
1947	348,142	23.3	--	--	1986	134,298,853	7.4	20,220,138	66.5
1948	292,912	-15.9	--	--	1987	142,069,970	5.8	22,569,088	11.6
1949	295,060	0.7	--	--	1988	148,607,095	4.6	22,897,764	1.5
1950	352,996	19.6	--	--	1989	160,288,707	7.9	23,596,386	3.1
1951	530,610	50.3	--	--	1990	166,098,804	3.6	24,258,793	2.8
1952	523,285	-1.4	--	--	1991	159,439,219	-4.0	25,061,840	3.3
1953	767,265	46.6	--	--	1992	162,369,508	1.8	26,609,374	6.2
1954	431,781	-43.7	--	--	1993	168,070,511	3.5	26,203,408	-1.5
1955	602,578	39.6	--	--	1994	171,854,594	2.3	30,128,724	15.0
1956	607,912	0.9	--	--	1995	179,671,657	4.5	32,375,928	7.5
1957	713,893	17.4	--	--	1996	184,495,447	2.7	34,342,440	6.1
1958	897,967	25.8	--	--	1997	191,670,080	3.9	36,238,989	5.5
1959	3,708,447	313.0	--	--	1998	151,322,830	-21.1	38,563,817	6.4
1960	4,098,228	10.5	--	--	1999	130,525,591	-13.7	42,536,764	10.3
1961	6,449,493	57.4	--	--	2000	134,418,833	3.0	44,929,291	5.6
1962	7,391,621	14.6	--	--	2001	139,799,408	4.0	46,580,142	3.7
1963	9,720,185	31.5	--	--	2002	142,221,589	1.7	44,970,000	-3.5
1964	9,520,505	-2.1	--	--	2003	158,152,850	11.2	45,146,412	0.4
1965	13,491,216	41.7	--	--	2004	160,337,972	1.4	44,622,734	-1.2
1966	16,923,436	25.4	--	--	2005	169,453,338	5.7	42,522,698	-4.7
1967	19,950,548	17.9	3,385,011	--	2006	185,395,029	9.4	23,447,180	-44.9
1968	23,227,995	16.4	3,737,891	10.4%	2007	218,013,895	17.6	23,256,854	-0.8
1969	28,045,568	20.7	6,249,791	67.2	2008	218,752,000	0.3	24,419,843	5.0
1970	28,846,025	2.9	7,053,173	12.9					

The state funding was direct from 1932 to 1989 for TRA and from 1967 to 1989 for the first class city teacher retirement fund associations. It was indirect (i.e., part of general education state aid, without any specific dedication in force) since 1989. After 1988, the indicated amount of indirect state contribution with respect to TRA or the first class city teacher retirement fund associations represents the percentage of covered payroll of the retirement plan or plans covered by the prior categorical retirement aid rolled into the general state education revenue program.

Over the most recent 20-year period, the indirect state aid on account of TRA increased at an annual rate of 1.9 percent, while the indirect state aid on account of the first class city teacher plans increased at an annual rate of 0.2 percent, with both results greatly affected by the consolidation of the Minneapolis Teachers Retirement Fund Association (MTRFA) into TRA in 2006.

- (e) Permissible Uses of State Funding for Teacher Retirement. The state funding received by teacher retirement plans becomes an asset of the applicable retirement plan and may be expended for any lawful purpose for the retirement fund. The state funding, when included in the general state education revenue program, becomes part of the overall revenue of the applicable school district and may be used for any permissible school district expenditure under law.

3. First Class City Fire Insurance Premium Tax Surcharge.

- (a) Establishment. The first class city fire insurance premium tax surcharge was enacted in 1934 (Extra Session Laws 1934, Ch. 53, Sec. 1 through 3). It is codified in Minnesota Statutes, Sec. 297I.10.

The first class city fire insurance premium tax surcharge was enacted to assist the three first class city fire department relief associations in paying the service pensions and other retirement benefits that are payable. The provisions were enacted at a time when the Duluth

Fire Department Relief Association, the Minneapolis Fire Department Relief Association, and the St. Paul Fire Department Relief Association were funded in virtually a current disbursements (or “pay-as-you-go”) manner, when there were statutory limits on the amount of municipal taxes that could be levied in support of the relief associations holding municipal contributions to very modest levels, and before the enactment of the 1969 Police and Paid Fire Relief Association Financing Guidelines Act mandating some measure of actuarial funding of local police and paid fire relief associations.

- (b) Source of Program Revenue. The first class city fire insurance premium tax surcharge is funded from the dedicated proceeds of a surcharge on the premiums paid on fire insurance written in a city of the first class. The surcharge is an amount equal to two percent of those premiums. The total amount of the surcharge raised over the period 1987 to 2008 is as follows:

First Class City Fire Insurance Premium Tax Surcharge

<u>Year</u>	<u>Total First Class City Fire Insurance Surcharge</u>	<u>Year</u>	<u>Total First Class City Fire Insurance Surcharge</u>
1987	\$1,546,869.31	1998	\$879,543.11
1988	829,752.97	1999	866,014.30
1989	1,596,074.60	2000	1,092,207.02
1990	1,060,610.68	2001	1,321,160.65
1991	817,931.12	2002	1,382,373.58
1992	787,817.66	2003	938,563.65
1993	920,716.31	2004	2,006,795.13
1994	925,052.72	2005	1,606,176.41
1995	856,728.68	2006	1,658,598.11
1996	883,957.22	2007	1,912,568.20
1997	884,110.74	2008	1,798,805.75

The surcharge is collected by the Commissioner of Commerce and deposited in the State General Fund.

- (c) Qualification Requirement for Receipt of Surcharge Amounts. There are no qualification requirements for the receipt of the first class city fire insurance premium tax surcharge proceeds.
- (d) Allocation of First Class City Fire Insurance Premium Tax Surcharge. The first class city insurance premium tax surcharge is allocated based on the geographical source of the insurance premium tax surcharge. Thus, the fire insurance premium tax surcharge proceeds collected from Duluth are payable to Duluth, the fire insurance premium tax surcharge proceeds collected from Minneapolis are payable to the Minneapolis Firefighters Relief Association, and the fire insurance premium tax surcharge proceeds collected from St. Paul are payable to St. Paul.

The following summarizes the allocation of the first class city fire insurance premium tax surcharge amounts for the period 1987-2008:

First Class City Fire Insurance Premium Tax Surcharge Allocation

<u>Year</u>	<u>Total</u>	<u>Percent Change</u>	<u>Duluth Portion</u>	<u>Percent Change</u>	<u>Minneapolis Portion</u>	<u>Percent Change</u>	<u>St. Paul Portion</u>	<u>Percent Change</u>
1987	\$1,546,869.31	--	\$138,420.06	--	\$911,546.62	--	\$496,902.63	--
1988	829,752.97	-46.4%	75,776.21	-45.3%	554,954.71	-39.1%	199,022.05	-59.9%
1989	1,596,074.60	92.4	142,973.55	88.7	910,025.68	64.0	543,075.37	172.9
1990	1,060,610.68	-33.5	185,817.93	30.0	544,123.92	-40.2	330,668.83	-39.1
1991	817,931.12	-22.9	84,990.38	-54.3	440,760.02	-19.0	292,180.72	-11.6
1992	787,817.66	-3.5	69,246.87	-18.5	427,887.97	-2.9	290,682.82	-0.6
1993	920,716.31	16.9	92,094.51	33.0	540,700.71	26.4	287,921.09	-0.1
1994	925,052.72	0.5	101,525.46	10.2	500,789.00	-7.4	322,738.26	12.1
1995	856,728.68	-7.4	106,671.90	5.1	429,074.73	-14.3	320,982.05	-0.1
1996	883,957.22	3.2	105,160.83	-1.4	444,939.54	3.7	333,856.85	40.1
1997	884,110.74	0.0	102,720.36	-2.3	467,378.95	5.0	314,011.43	-5.9
1998	879,543.11	-0.5	114,022.66	11.0	511,446.26	9.4	254,074.19	-19.1
1999	866,014.30	-1.5	116,741.02	2.4	456,955.78	-10.7	292,317.50	15.1
2000	1,092,207.02	26.1	146,268.15	25.3	613,479.60	34.3	332,459.27	13.7
2001	1,321,160.65	21.0	155,583.03	6.4	737,177.50	20.2	428,400.12	28.9
2002	1,382,373.58	4.6	192,467.79	23.7	735,610.78	-0.2	454,295.01	6.0
2003	938,563.65	-32.1	116,313.56	-39.6	461,949.36	-37.2	360,300.73	-20.7
2004	2,006,795.13	113.8	233,752.34	101.0	1,053,402.60	128.0	719,640.19	99.7

First Class City Fire Insurance Premium Tax Surcharge Allocation

Year	Total	Percent Change	Duluth Portion	Percent Change	Minneapolis Portion	Percent Change	St. Paul Portion	Percent Change
2005	1,606,176.41	-20.0	191,425.56	-18.1	851,975.81	-19.1	562,775.04	-21.8
2006	1,658,598.11	3.3	181,526.36	-5.2	847,376.20	-0.1	629,695.55	11.9
2007	1,912,568.20	3.3	231,790.14	27.7	1,014,930.76	19.8	66,584.30	5.7
2008	1,798,805.75	5.0	207,347.93	-10.5	971,765.45	-0.4	619,689.37	-6.9

Over the 21-year period, the surcharge proceeds increased at an annual rate of 0.25 percent and at an annual rate of 3.9 percent over the most recent 20-year period. Over the 21-year period, the surcharge proceeds increased at an annual rate of 1.875 percent for Duluth, 0.125 percent for Minneapolis, and 1.125 percent for St. Paul. Over the most recent 20-year period, the annualized rate of increase was 5.185 percent for Duluth, 2.875 for Minneapolis, and 5.8 percent for St. Paul.

- (b) Permissible Uses of First Class City Fire Insurance Premium Tax Surcharge. The first class city fire insurance premium tax surcharge is payable to the treasurer of the applicable relief association for deposit into the special fund of the relief association. Although not specifically provided for in Minnesota Statutes, Sec. 297I.10, for the City of Duluth and for the City of St. Paul, the first class city fire insurance premium tax surcharge is ultimately payable to the Public Employees Police and Fire Retirement Plan (PERA-P&F) as the successor to the former Duluth Fire Department Relief Association and the Duluth Joint Police and fire consolidation Account and to the St. Paul Firefighters Relief Association under Minnesota Statutes, Sec. 353.665 and 353A.07, Subd. 3.

4. Police State Aid.

- (a) Establishment. The police state aid program was initially established in 1971 (Laws 1971, Ch. 695). The program was initially codified and remains codified as Minnesota Statutes, Sec. 69.011-69.051. The police state aid program was intended to replicate for police pension purposes the fire state aid program, which was established in 1875.

The police state aid program was initially recommended by the Legislative Commission on Pensions and Retirement and was intended to assist governmental subdivisions, principally municipalities with local police relief associations, in meeting their financial requirements in funding police pensions. Recognition of the need to fund police pensions and the obligation to meet the financial requirements of police pensions increased with the passage of the Commission-sponsored 1969 Local Police and Salaried Firefighters Relief Association Financing Guidelines Act. Prior to 1969, except for a modest number of local police and paid firefighter relief associations governed by special laws enacted in the late 1960s, local police and paid firefighter relief associations were funded on a “current disbursements” or “pay-as-you-go” basis. That basis of funding for a defined benefit plan left these relief associations severely underfunded. The 1969 Guidelines Act required for the first time the funding of local police and paid firefighter relief associations on some version of an actuarial basis. The original 1969 Guidelines Act required that the municipalities with local police or paid firefighter relief associations increase their funding of the relief associations from whatever its prior level had been to the payment of normal cost and interest on the relief association unfunded actuarial accrued liability over a ten-year period (1970-1980). Even with that lengthy phase-in period and the minimal actuarial funding standard (known as the “frozen deficit level” funding requirement because the relief association unfunded actuarial accrued liability would not increase by virtue of unpaid interest), municipalities with local relief associations faced substantial increases in the early 1970s in the amount of resources that would be needed to be committed to public safety pension plan funding and were complaining about that financial impact to the 1971 Legislature and the Commission.

- (b) Source of State Aid Revenue. The police state aid program was initially funded in 1971 (Laws 1971, Ch. 695) from one-half of the longstanding two percent premium tax on various types of automobile casualty insurance, with the remaining half remaining credited to the state’s general fund.

In 1976 (Laws 1976, Ch. 315), the police state aid program was substantially modified. The amount of police state aid was increased from one half of the two percent premium tax on certain types of automobile insurance to the full two percent premium tax. The police state

aid program was affected by the change in insurance premium tax rates on mutual insurance companies that occurred in 1988 (Laws 1988, Ch. 719, Art. 2, Sec. 1-5), with respect to foreign (non-Minnesota domiciled) mutual insurance companies. Domestic mutual insurance company automobile insurance premium taxes were not dedicated to the police state aid program until 1995 (Laws 1995, Ch. 264, Art. 9, Sec. 4).

In 1992 (Laws 1992, Ch. 487, Sec. 1) owners of motor vehicles other than the State of Minnesota or its political subdivisions who self-insure those vehicles for automobile risks are required to pay an amount equivalent to the automobile casualty insurance premium tax, set at \$15 for private passenger vehicles and \$25 for taxis and other vehicles that are not private passenger vehicles. The proceeds of the self-insured automobile casualty insurance premium tax equivalent payment provision are dedicated to the police state aid program. The surcharge was repealed in 2000 (Laws 2000, Ch. 394, Art. 2, Sec. 28).

In 1995 (Laws 1995, Ch. 264, Art. 9, Sec. 3, amending Minnesota Statutes, Sec. 60A.15, Subd. 1) the Legislature increased the insurance premium tax rates for town and farmers' mutual insurance companies and for mutual property casualty companies with assets no greater than \$1.6 billion. The pre-1995 insurance premium tax rate for these mutual insurance companies was one-half of one percent of the amount of all premiums. The rate was increased by the 1995 Legislature to two percent of all life insurance premiums, one percent of all other insurance premiums for all town and farmers' mutual insurance companies and for the smaller mutual property and casualty companies (assets of no more than \$5 million), and 1.26 percent of all other insurance premiums for the larger mutual property and casualty companies (assets over \$5 million and no greater than \$1.6 billion). Also, the 1995 Legislature (Laws 1995, Ch. 264, Art. 9, Sec. 4, amending Minnesota Statutes, Sec. 69.021, Subd. 2), increased the insurance premium taxes dedicated to the police state aid program by eliminating an exception for domestic mutual insurance companies to file a Minnesota Aid to Police Premium Report on which the insurance premium tax dedication for the police state aid is based. The insurance premium taxes on automobile insurance written by domestic mutual companies are dedicated to the police state aid rather than becoming an asset of the state's general fund. The 1995 legislation resulted in increased police state aid. For the police state aid program, the dedicated revenue was increased from the amount of the insurance premium taxes collected on automobile insurance and the automobile risk self-insurer equivalent payments to the greater of either 104 percent of the automobile insurance premium taxes and self-insurer equivalent payments or an amount equal to two percent of the automobile insurance premiums.

The police state aid program is funded principally from a portion of the insurance premium taxes collected by the State of Minnesota.

Under Minnesota Statutes, Sec. 60A.15, domestic (Minnesota) and foreign (non-Minnesota) insurers, including various mutual insurance companies, marine insurance companies, health maintenance organizations, integrated service networks, and nonprofit health service plan corporations, are required to pay a percentage of the premiums (gross premiums reduced by return premiums) that they or their agents collect on direct business received in Minnesota. The rates for various types of insurers are as follows:

Insurer	Rate
• health maintenance organizations, nonprofit health services plan corporations, integrated service networks, and community integrated service networks	1.00 percent
• town and farmers' mutual insurance companies and mutual property and casualty companies with assets less than or equal to \$5 million, on insurance coverage other than life insurance	1.00 percent
• mutual property and casualty companies with assets over \$5 million and equal to or less than \$1.6 billion, on insurance coverage other than life insurance	1.26 percent
• other insurers or other insurance coverage	2.00 percent

The insurance premium taxes are now collected by the Department of Revenue. The function was transferred from the Department of Commerce (and the former Insurance Department) by executive order in the early 1980s. Of the total amount of insurance premium taxes collected, an amount equal to either 104 percent of the amount of the premium taxes reported on the Minnesota Aid to Police Premium Report or two percent of the amount of the premiums

reported on the Minnesota Aid to Police Premium Report is dedicated as police state aid. From the dedicated police state aid amount is subtracted the amount required to pay the cost and expense of the State Auditor's Office for audits or exams of police relief associations. From 1992 until 2000, in addition to the regular insurance premium taxes, the police state aid program was also funded from payments made by self-insurers for automobile casualty risks under Minnesota Statutes 2000, Sec. 60A.152. The payment by automobile risk self-insurers for a passenger vehicle was \$15 annually and for a taxi or other type of self-insured vehicle was \$25 annually. The surcharge was repealed in an insurance bill in 2000 (Laws 2000, Ch. 394, Art. 2, Sec. 28).

Police state aid was a modest commitment of state resources when the program was initiated in 1971, but has grown considerably over the next 31 years, as follows:

Police State Aid					
Year	Total Police State Aid	Amount Deducted for PERA-P&F	Amount Allocated to Police Employers	Increase or Decrease Over Prior Year	Police State Aid Per Police Officer
1972	\$2,307,444	\$461,489	\$1,845,955	--	N/A
1973	2,487,178	497,436	1,989,742	7.79%	N/A
1974	2,460,435	492,087	1,968,348	-1.08	N/A
1975	2,591,333	518,267	2,073,066	5.32	N/A
1976	2,697,671	0	2,697,671	4.10	N/A
1977	8,601,026	0	8,601,026	218.83	1,610
1978	10,269,283	0	10,269,283	19.40	1,866
1979	11,464,982	0	11,464,982	11.64	2,032
1980	12,826,038	0	12,826,038	11.87	2,258
1981	14,091,352	0	14,091,352	9.87	2,481
1982	14,663,614	0	14,663,614	4.06	2,566
1983	14,817,224	0	14,817,224	1.05	2,590
1984	15,242,120	0	15,242,120	2.87	2,661
1985	16,287,427	0	16,287,427	6.86	2,795
1986	19,091,380	0	19,091,380	17.22	3,256
1987	23,986,079	0	23,986,079	25.64	4,075
1988	26,074,381	0	26,074,381	8.71	4,343
1989	26,525,503	0	26,525,503	1.73	4,400
1990	27,399,401	0	27,399,401	3.29	4,458
1991	30,111,119	0	30,111,119	9.90	4,783
1992	31,950,032	0	31,950,032	6.11	4,966
1993	31,145,397	0	31,145,397	-2.52	5,250
1994	36,210,413	0	36,210,413	16.26	5,453
1995	38,711,974	0	38,711,974	6.90	5,706
1996	47,499,045	0	47,499,045	22.70	6,872
1997	47,619,477	0	47,619,477	0.25	6,359
1998	43,199,063	0	43,199,063	-9.28	6,068
1999	46,117,948	0	46,117,948	6.76	5,994
2000	45,915,460	0	45,915,460	-0.44	6,145
2001	44,843,783	0	44,843,783	-2.33	6,508
2002	47,384,086	0	47,384,086	5.66	6,898
2003	50,053,513	0	50,053,513	5.63	7,498
2004	52,665,660	0	52,665,660	5.22	8,414
2005	54,175,957	0	54,175,957	2.87	8,373
2006	54,532,083	0	54,532,083	0.66	7,760
2007	60,748,244	0	60,748,244	11.40	7,392
2008	60,826,549	0	60,826,549	0.13	6,774

- (c) Qualification Requirements for Receipt of Police State Aid. Initially, under the 1971 law, only cities, villages, boroughs, and organized towns were eligible to receive police state aid and these employers qualified if they had an organized police department for at least one year and had a duly incorporated police relief association or special police department pension fund or had pension coverage by the Public Employees Police and Fire Fund (PERA-P&F). The qualification requirements were modified in 1976 (Laws 1976, Ch. 315), with eligible employing units expanded to all cities, organized towns, and counties employing persons primarily with service as sworn law enforcement officers with the power to enforce the general criminal laws by arrest with a warrant, certified by the Minnesota Police Officers Standards and Training (POST) Board, unless the municipality has a population under 1,000, with pension coverage either by a local police relief association or by PERA-P&F.

The 1976 qualification requirements were clarified and augmented in 1977 (Laws 1977, Ch. 429, Sec. 4 to 9). Eligible cities, organized towns, and counties qualify to receive police state aid if they employ one or more persons whose primary compensation is from full-time employment of not less than 30 hours per week as a law enforcement officer of at least six months as of the prior December 31, is sworn to enforce the general criminal laws, is authorized to assist with a warrant, is a member of either a local police relief association or of PERA-P&F, is certified by the Minnesota POST Board if employed by a municipality with a population of more than 1,000, and meets the POST Board selection standards. The qualification requirements were further revised in 1981 (Laws 1981, Ch. 224, Sec. 19 to 22), with a consolidation of the POST Board requirements into a single requirement that the peace officer be licensed by the POST Board for all municipalities.

In 1985 (Laws 1985, Ch. 261, Sec. 1), the University of Minnesota was made eligible for the receipt of police state aid.

In 1992 (Laws 1992, Ch. 596, Sec. 2), the Metropolitan Airports Commission was made eligible for receipt of police state aid and the public safety pension coverage requirement was expanded to include pension coverage by the Minneapolis Employees Retirement Fund (MERF). In 1997 (Laws 1997, Ch. 233, Sec. 6-13) the Enforcement Division of the Department of Natural Resources (for State Game Wardens) and the Alcohol and Gambling Enforcement Division (for the Gambling Enforcement officers), the Bureau of Criminal Apprehension (for Bureau of Criminal Apprehension agents), and the State Patrol Division (for State Patrol Troopers) of the Department of Public Safety were made eligible for receipt of police state aid and the public safety pension coverage requirement was further expanded to include pension coverage by the State Patrol Retirement Plan.

- (d) Allocation of Police State Aid. Initially, under the 1971 law, 20 percent of police state aid was paid directly to the PERA-P&F and 80 percent of police state aid was allocated among the cities with local police relief associations or with PERA-P&F pension coverage, half in proportion to the relative size of the population of the municipality served by the local police relief association and half in proportion to the relative size of the property value of the municipality served by the local police relief association. In this combination allocation basis of population and property valuation, the police state aid replicated the basis for aid allocation introduced in the fire state aid program in 1969. Contemporaneous Commission documentation indicates that the 20 percent deducted from the total available state aid and deposited in PERA-P&F was intended to cover the county sheriff personnel who had police pension coverage by PERA-P&F, because the proponents of the initial 1971 police state aid legislation could not figure out a procedure for allocating population and property valuation numbers between municipal police departments and county sheriff departments where a jurisdiction is served by both.

In 1996 (Laws 1996, Ch. 315), the police state aid allocation method was changed from a geographical factor-based formula to a per-police officer formula, thereby providing a direct mechanism for including PERA-P&F-covered municipal police department and county sheriff department members in the police state aid allocation process. The per-police officer allocation procedure allocates police state aid based on the full-time police officers that qualify the employing unit for receipt of police state aid. The direct deposit of police state aid in PERA-P&F to reduce that plan's unfunded actuarial accrued liability terminated in 1976.

In 1985 (Laws 1985, Ch. 261, Sec. 1), as a consequence of the 1978 consolidation of the University of Minnesota Police Pension Plan into PERA-P&F, police state aid began being allocated to the University of Minnesota on account of its police officers.

In 1992 (Laws 1992, Ch. 596, Sec. 1), the Metropolitan Airports Commission began being included in the police state aid allocation on account of the airport police force.

In 1993 (Laws 1993, Ch. 307, Art. 4, Sec. 33), with the shift from part-time to full-time transit police, police state aid began being allocated to the Metropolitan Council on account of its transit police officers.

In 1997 (Laws 1997, Ch. 233, Art. 1, Sec. 8, 10, 31, and 71), police state aid began being allocated to the Enforcement Division of the Department of Natural Resources and the Alcohol and Gambling Enforcement Division, Bureau of Criminal Apprehension, and State

Patrol Division of the Department of Public Safety, with one-half of the number of game wardens, Bureau of Criminal Apprehension agents, gambling enforcement officers, and state patrol troopers included in the October 1997 allocation and with the full number of game wardens, Bureau of Criminal Apprehension agents, gambling enforcement officers, and state patrol troopers included in the October 1998 and subsequent allocations.

To provide some sense of the allocation of police state aid, the following sets forth the amounts received by the ten most recent recipients of the largest aid amounts in 1988, 1993, 1998, 2003, and 2008:

Governmental Entity	1988	1993	1998	2003	2008
Anoka County	\$255,887	\$377,147	\$464,761	\$526,791	\$808,387
Department of Natural Resources	--	--	757,004	1,370,827	1,391,533
City of Duluth	559,911	650,660	853,083	1,100,286	947,258
Hennepin County	1,135,748	1,460,022	1,777,973	1,700,123	2,231,533
City of Minneapolis	3,479,991	4,392,754	5,708,125	6,624,834	6,010,407
Minnesota State Patrol	--	--	2,469,745	4,521,107	4,054,922
Ramsey County	925,826	1,270,573	1,482,844	1,458,106	1,626,371
City of Rochester	395,955	493,091	653,845	640,775	823,065
City of St. Paul	2,191,146	2,535,897	3,040,425	3,216,316	3,767,018
Wright County	239,600	308,893	344,300	443,547	831,560

For the eight governmental entities that received police state aid for the most recent 20 years (1988-2008), the average annual compound rate of increase in police state aid was 5.9 percent for Anoka County, 2.6 percent for the City of Duluth, 4.3 percent for Hennepin County, 2.75 percent for the City of Minneapolis, 2.8 percent for Ramsey County, 3.64 percent for the City of Rochester, 2.75 percent for the City of St. Paul, and 6.375 percent for Wright County.

For the two state agencies receiving police state aid, the most recent ten-year average annual compound rate of increase in police state aid was 6.25 percent for the Department of Natural Resources and 5.1 percent for the Minnesota State Patrol.

- (e) Permissible Uses of Police State Aid. The initial enactment of police state aid in 1971 (Laws 1971, Ch. 695) required that the 20 percent of police state aid dedicated from the total be paid to the treasurer of PERA-P&F for application against the PERA-P&F unfunded actuarial accrued liability and that the remainder of police state aid be paid to the treasurer of the local police relief association in cities of the first class and in cities of the second class if a local police relief association existed or to the municipal treasurer in cities of the third or fourth class or in cities of the first or second class if no local police relief association existed. The municipal treasurer in cities of the third or fourth class was required to transmit the police state aid to the local police relief association, if one existed. For cities in which no local police relief association existed, the 1971 law was unclear for what purpose or purposes police state aid could be expended.

In 1976 (Laws 1976, Ch. 315), the uses of police state aid were more clearly delineated. For cities with local police relief associations, police state aid was required to be paid to the relief association treasurer and the treasurer was required to deposit the police state aid in the relief association special fund upon receipt. For counties and cities with police retirement coverage provided by PERA-P&F, the police state aid was required to be applied towards the employer's contribution to PERA-P&F. For cities with a combination of police retirement coverage of a local police relief association and PERA-P&F, the city was required to apply the total police state aid received towards its obligation to the local relief association, to apply the total police state aid received towards its PERA-P&F obligation, or to allocate the total police state aid received between the local police relief association obligation and the PERA-P&F obligation on the basis of the number of full-time police officers covered by each.

In 1977 (Laws 1977, Ch. 429, Sec. 4 to 9), for the circumstances where the police state aid exceeds the city or county PERA-P&F obligation when PERA-P&F is the total police pension coverage, a procedure for the collection of excess police state aid was created. Because of the guarantee to cities of no less police state aid than they received in 1975, which was added in 1976, and because of the relatively high per capita police state aid amount (\$1,610.00 in 1977, covering the full PERA-P&F employer contribution on a covered salary of \$13,496.67, when the average PERA-P&F covered salary for active members for fiscal year 1977 was

\$14,171.45), it was clear that some employing units covered by PERA-P&F could receive total police state aid in an amount greater than the total PERA-P&F employer contribution for their police officers. It was decided by the Commission that the best way to handle this “excess” police state aid situation that was most consistent with the designated purpose of the police state aid program to provide financing for police pensions was to require that any excess amounts also be contributed to PERA-P&F. The excess police state aid was to be used to amortize the unfunded actuarial accrued liability of PERA-P&F. During the period 1977 to 1996, these could only be an excess police state aid amount if the individual police state aid amount exceeds the average salary of all police officers employed by the political subdivision who are covered by PERA-P&F.

In 1987, when police state aid had grown to \$4,075.00 per police officer and the average police salary level below which excess police state aid is generated was \$33,958.33 (and the PERA-P&F average active member salary was \$28,766), 384 local governmental employing units (out of 479 entities receiving police state aid that year or 80.2 percent) returned excess police state aid to PERA-P&F, in a total amount of \$1,649,958.88.

In 1989 (Laws 1989, Ch. 319, Art. 6), recognizing that PERA-P&F was essentially fully funded (with a funding ratio of 97.13 percent) and hence no longer needed the additional funding provided by excess police state aid (with a July 1, 1987, funding ratio of 104.00 percent and a July 1, 1988, funding ratio of 97.13 percent), the Legislature changed the disposition of excess police state aid and excess police state aid was redirected to a special holding account in the Public Employees Retirement Association (PERA) and ultimate payment to the Public Employees Insurance Program (PEIP), administered by the Department of Employee Relations (DOER), to provide a subsidy for that then-recently created medical and hospitalization insurance program for groupings of employees and retirees of smaller local governments.

In 1994 (Laws 1994, Ch. 632, Art. 3, Sec. 50), the transfer of the excess police state aid amount to PEIP was discontinued, with \$1 million of any excess police state aid redirected to the then-recently created Ambulance Personnel Longevity Award Program, and the balance of the excess police state aid re-deposited in the state general fund unless the Legislature creates and funds a statewide police stress reduction and remediation program, whereupon any appropriation for that program is to be deducted from the excess police state aid balance before the state general fund cancellation.

In 1995, a portion of the excess police state aid was redirected to fund the newly created additional amortization state aid program.

In 1996 (Laws 1996, Ch. 390, Sec. 26 to 31, 35, 37, 38, and 41) the Legislature revised the manner in which excess police state aid would be collected to shift the collection of excess police state aid from a post-distribution process to a pre-distribution process, with the amount of the determined excess police state aid subtracted from the police aid allocation before the aid is paid rather than re-collection after the aid is paid. Under the 1996 legislation, the excess police state aid determination used for municipalities and counties solely with PERA-P&F retirement coverage is extended to municipalities with a combination of PERA-P&F coverage and either freestanding local police relief association or local police consolidation account coverage and to the Metropolitan Airports Commission, with a combination of PERA-P&F coverage and Minneapolis Employees Retirement Fund (MERF) coverage.

In 1997 (Laws 1997, Ch. 233, Art. 1, Sec. 6 to 13, Laws 1977, Ch. 241, Art. 1 and First Special Session Laws 1997, Ch. 5, Sec. 8), the 1996 excess police state aid collection procedure was further refined and corrected. Excess police state aid was clearly defined for all counties and cities receiving police state aid as any initial police state aid allocation amount in excess of that employing unit’s police pension contribution requirement and, in 48 cities, additionally in excess of that employing unit’s capped paid firefighter PERA-P&F pension contribution. The excess police state aid collection procedure was also adjusted to accommodate the inclusion of State Patrol Retirement Fund members.

The following sets forth the amount of excess police state aid 1977-2008, as reported by the Public Employees Retirement Association (PERA) or the Department of Revenue:

Excess Police State Aid
Percentage of Total Police State Aid

Year	Total Police State Aid	Excess Police State Aid	Excess as Percentage of Total	Year	Total Police State Aid	Excess Police State Aid	Excess as Percentage of Total
1977	\$8,601,026	\$314,036	3.65%	1993	\$31,145,397	\$2,512,287	8.07%
1978	10,269,283	462,391	4.50	1994	36,210,413	2,508,669	6.93
1979	11,464,982	516,923	4.51	1995	38,711,974	3,643,712	9.41
1980	12,826,038	674,867	5.26	1996	47,499,045	8,239,744	17.35
1981	14,091,352	586,656	4.16	1997	47,619,477	7,392,472	15.52
1982	14,663,614	409,941	2.80	1998	43,199,063	8,868,062	20.53
1983	14,817,224	303,704	2.05	1999	46,117,948	3,106,474	6.74
1984	15,242,120	693,561	4.55	2000	45,915,460	5,164,417	11.25
1985	16,287,427	303,533	1.86	2001	44,843,783	9,665,401	21.55
1986	19,091,380	569,333	2.98	2002	47,384,086	11,323,286	23.90
1987	23,986,079	1,649,959	6.88	2003	50,053,513	14,207,656	28.38
1988	26,074,381	1,895,178	7.27	2004	52,665,660	19,145,180	36.35
1989	26,525,503	1,603,182	6.04	2005	54,175,957	17,504,762	32.31
1990	27,399,401	1,840,064	6.72	2006	54,532,574	13,304,865	24.40
1991	30,111,119	2,024,719	6.72	2007	60,741,027	5,511,068	9.07
1992	31,950,032	2,300,738	7.20	2008	60,826,549	1,321,260	2.17

The amount of excess police state aid is affected by the amount of increase in insurance premium taxes, chiefly automobile casualty insurance premium taxes, the number of Minnesota police officers, the growth in police officer salaries, the rate of employer contributions to public safety retirement plans covering police officers, chiefly PERA-P&F, and the accuracy of the PERA in the reporting of police officer pension costs by employer (i.e., the extent of inclusion of paid firefighter PERA-P&F pension costs for municipalities with paid firefighters).

The following sets forth the amount of excess police state aid for the period 1998 to 2008, the last available year of data:

Excess Police State Aid
1998-2008

Year	Number of Police Officers	Dedicated Insurance Premium Tax Amount	Reported Police Pension Cost	Police State Aid Distributed	Excess Police State Aid
1998	7,487	\$47,633,092	\$43,199,061	\$43,199,063	\$4,434,031
1999	8,213	49,229,556	46,123,082	46,117,948	3,106,474
2000	8,314	51,085,002	45,920,585	45,915,460	5,164,417
2001	8,370	54,514,315	42,850,326	44,843,783	11,663,989
2002	8,511	58,712,506	47,389,220	47,384,086	11,323,286
2003	8,570	64,286,303	50,078,647	50,053,513	14,207,656
2004	8,534	71,815,974	52,670,794	52,885,860	19,145,180
2005	8,560	71,685,853	54,181,091	54,175,957	17,504,762
2006	8,742	67,850,948	54,546,083	54,532,574	13,304,865
2007	8,741	66,259,273	60,748,205	60,741,027	5,511,068
2008	8,963	62,152,943	60,831,683	60,826,549	1,321,260

None of the factors affecting police state aid and the amount of excess police state aid appear to follow a clearly predictable pattern to allow for reliable future estimates of available excess police state aid, but the likely expectation, with funding problems in PERA-P&F and its scheduled employer contribution increases, is that excess police state aid likely will be reduced over time both as a percentage of the aid distributed and as a dollar amount over the near term.

5. Minneapolis Employees Retirement Fund State Contribution

- (a) Establishment. The state contribution to the Minneapolis Employees Retirement Fund (MERF) was established in 1979 (Laws 1979, Ch. 303, Art. 6, Sec. 9). The requirement is contained in Minnesota Statutes, Sec. 422A.101, Subd. 3. The addition of a state contribution to MERF accompanied a reduction in the local government aid payable to the City of Minneapolis (see Laws 1979, Ch. 303, Art. VI, Sec. 3, Para. (a), Cl. (2)) and represented an attempt by the Legislature to freeze the Minneapolis city contribution to the plan. The state contribution was part of the 1979 tax bill.

- (b) Source of the State Contribution to MERF. The state contribution to MERF is funded by an open and standing appropriation from the State General Fund.
- (c) Qualification Requirements for Receipt of the MERF State Contribution. There are no qualification requirements for the City of Minneapolis and MERF to receive the annual state contribution.

The amount of the state contribution is a function of the annual actuarial valuation of MERF, prepared by the consulting actuary retained by the Legislative Commission on Pensions and Retirement before 2005, by the consulting actuary retained jointly by the various retirement plan administrators after 2004 and before 2008, and by the consulting actuary retained by the MERF board of trustees after 2007, and of the MERF financial requirements prepared by the MERF Board under Minnesota Statutes, Sec. 422A.101, Subd. 1.

- (d) Amount of the MERF State Contribution. Since 1980, the annual State General Fund contribution to MERF has been as follows:

State General Fund Contribution to MERF					
Fiscal Year	State Contribution	Percent Change	Fiscal Year	State Contribution	Percent Change
1980	\$1,109,800	--	1995	\$10,455,000	--
1981	4,718,400	4.25%	1996	10,455,000	--
1982	3,889,000	-17.58	1997	10,455,000	--
1983	5,214,700	34.09	1998	10,455,000	--
1984	6,607,000	26.67	1999	7,032,750	-32.74
1985	7,007,000	6.05	2000	3,085,000	-56.63
1986	7,650,000	9.18	2001	3,224,000	4.51
1987	9,774,000	27.77	2002	3,232,000	0.25
1988	10,892,000	11.44	2003	6,632,000	105.20
1989	11,004,000	1.03	2004	7,093,000	6.95
1990	11,782,000	7.07	2005	8,064,635	13.70
1991	11,919,000	1.16	2006	9,000,000	11.60
1992	10,455,000	-12.28	2007	9,000,000	--
1993	10,455,000	--	2008	8,866,510	-1.48
1994	10,455,000	--			

For the period 1988-2008, the MERF state contribution has declined by an average annual compounded rate of change of 3.125 percent.

The state contribution to MERF was capped at \$10,455,000 in 1991 (Laws 1991, Ch. 345, Art. 4, Sec. 10) and was further capped at \$9,000,000 in 1998 (Laws 1998, Ch. 397, Art. 11, Sec. 3). MERF financial requirements remaining after deducting the expected amount of member contributions, the maximum amount of the state contribution, and the frozen city contribution were made payable by the City of Minneapolis as an additional contribution in the 1991 and 1998 legislation.

- (e) Permissible Uses of MERF State Contribution. The state contribution to MERF becomes an asset of MERF and can be expended for any purpose for which any MERF asset can be expended.

6. Volunteer Fire Lump Sum Supplemental Benefit and State Reimbursement

- (a) Establishment. In 1988 (Laws 1988, Ch. 719, Art. 19, Sec. 22), as part of that legislative session's tax bill, the Legislature mandated that volunteer firefighter relief associations that pay a lump sum service pension also pay a supplemental benefit equal to ten percent of the amount of the lump sum service pension payable to retiring members, to a maximum of \$1,000 per lump sum service pension. The provision is coded as Minnesota Statutes, Sec. 424A.10. The supplemental benefit was intended to reimburse retiring volunteer firefighters for a change in Minnesota tax law, enacted in the late 1980s, which caused Minnesota public pensions to be taxable under Minnesota law. Given the relatively modest level of volunteer fire pensions, at least as of the late 1980s, the 1988 enactment of the volunteer fire lump sum supplemental benefit may have been intended to offset the impact of that new Minnesota taxation, so that the new tax treatment did not discourage individuals from providing volunteer fire services.

In 2006 (Laws 2006, Ch. 271, Art. 13, Sec. 5), effective retroactively to August 1, 2005, the state-funded supplemental lump sum benefit payable to survivors of deceased active or deferred members was doubled to a maximum of \$2,000.

In 2007 (Laws 2007, Ch. 134, Art. 19, Sec. 1-3), after the Commission discovered that the Department of Revenue had interpreted the 1988 law to include survivors and survivor benefits and that the 2006 law had the effect of tripling, rather than doubling, the supplemental benefit payable to survivors, “qualified recipient” for a supplemental volunteer fire pension benefit was clarified to be a retiring volunteer firefighter, not a surviving spouse, the supplemental benefit payment provision was revised by clarifying that survivors of deceased active or deferred volunteer fire fighters are eligible for a survivor supplemental benefit but not a qualified recipient supplemental benefit, and the Department of Revenue requirement to reimburse volunteer fire special relief association for payment of supplemental benefits was expanded to include reimbursement of supplemental benefits paid to survivors of deceased active or deferred volunteer firefighters.

- (b) Source of the Volunteer Fire Lump Sum Supplemental Benefit State Reimbursement. The volunteer fire lump sum supplemental benefit state reimbursement is payable from a state general fund appropriation to the Department of Revenue.
- (c) Qualification Requirements for Receipt of the Volunteer Fire Lump Sum Supplemental Benefit State Reimbursement. The supplemental benefit is reimbursable by the state if the volunteer firefighter relief association that paid the supplemental benefit applies with the Commissioner of Revenue by the subsequent February 15, with the reimbursement paid on March 15 from a state general fund appropriation for that purpose.
- (d) Amount of the volunteer Fire Lump Sum Supplemental Benefit State Reimbursement. The amount of the volunteer fire lump sum supplemental benefit state reimbursement paid by the Department of Revenue annually over the period 1989 to 2009 is as follows:

Year	Number of Payments Approved	Dollar Amount of Payments	Percent Change	Year	Number of Payments Approved	Dollar Amount of Payments	Percent Change
1989	169	\$248,877.98	---	2000	287	\$420,388.00	2.11%
1990	253	355,340.44	42.78%	2001	275	439,660.80	4.58
1991	259	357,604.39	0.64	2002	297	456,594.53	3.85
1992	268	394,324.32	10.27	2003	313	480,665.19	5.27
1993	264	384,550.40	-2.48	2004	351	534,653.75	11.23
1994	248	330,629.36	-14.02	2005	336	521,665.15	-2.43
1995	263	366,189.08	10.76	2006	328	485,738.34	-6.89
1996	261	414,799.08	13.27	2007	342	572,199.67	17.80
1997	262	371,903.61	-10.34	2008	337	571,218.90	-0.17
1998	277	365,561.84	-1.71	2009	356	608,950.98	6.61
1999	285	411,695.58	12.62				

Over the 20-year period of the program, 1989-2009, the total amount of the supplemental benefit reimbursements has increased at an average annual compound rate of 4.575 percent.

- (e) Permissible Uses for Reimbursement Amounts. The state reimbursement of volunteer fire lump sum supplemental benefits are required to be deposited into the special fund of the applicable volunteer firefighter relief association and may be expended for any lawful purpose for the relief association.

7. Local Police and Paid Fire Relief Association Amortization State Aid Program.

- (a) Establishment. The local police and paid fire relief association amortization state aid was established in 1980 (Laws 1980, Ch. 607, Art. XV, Sec. 5), as part of the tax bill in legislation that provided for the closing of most local police and paid fire relief associations to new entrants. The program is coded as Minnesota Statutes, Sec. 423A.01, Subd. 1. In 1980, local police and salaried firefighter relief associations were closed to new members. New hires were redirected to the Public Employees Police and Fire Retirement Plan (PERA-P&F). Since the local relief associations would eventually terminate due to closing the plans to new members, there was a need to address funding and bring closure to their actuarial accrued liabilities. The plans were required in 1980 to amortize their unfunded actuarial accrued

liabilities by the year 2010. As additional state assistance, the amortization aid program was established. The aid was designed to cover a portion of the annual amortization requirement, given the unfunded actuarial accrued liabilities that existed as of the 1978 actuarial valuation of the fund. The amortization aid to the relief association equaled the difference between the full amortization requirement on the relief association's 1978 unfunded actuarial accrued liability and the interest only requirement on the same unfunded actuarial accrued liability. The aid was meant to be a fixed amount, leaving local governments responsible for any increases in unfunded actuarial accrued liabilities due to future poor investment returns, high expenses, benefit improvements, mortality losses, or any other cause that acts to increase unfunded actuarial accrued liabilities. The intent was to provide some state assistance while still providing incentives for prudent local management of the assets of the fund.

- (b) Source of the Amortization State Aid Revenue. Local police and paid fire amortization state aid was initially funded and remains funded from the state general fund. The initial amortization state aid in 1980 was an open and standing appropriation, totaling \$6,574,598.

In 1989 (Laws 1989, Ch. 319, Art. 19, Sec. 7, and Laws 1989, Ch. 335, Art. 1, Sec. 48), the amounts of amortization aid for the Minneapolis police and fire relief associations were reduced in connection with the passage of the investment-related thirteenth check post-retirement adjustment for the fiscal year 1990-fiscal year 1991 biennium.

In 1991 (Laws 1991, Ch. 345, Art. 1, Sec. 92), that reduction for the Minneapolis police and fire relief associations was made permanent, with the total amortization aid amount capped at \$5,055,000, and the open and standing appropriation language was eliminated, making the program dependent on biennial state general fund direct appropriations. Local police and paid fire amortization state aid has been appropriated every biennium during the period 1989-1999.

Local police and paid fire amortization state aid has declined in amount since its initiation in 1980, by virtue of the Minneapolis Police Relief Association and the Minneapolis Firefighters Relief Association aid reductions and by virtue of the increase in the number of local relief associations that lose qualifications for aid by becoming fully funded, as follows:

Local Police and Paid Fire Relief Association Amortization State Aid: Fire/Police Allocation			
Year	Total	Paid Fire Share	Police Share
1980	\$6,574,598	\$3,092,275	\$3,482,323
1981	6,574,598	3,092,275	3,482,323
1982	6,574,598	3,092,275	3,482,323
1983	6,574,598	3,092,275	3,482,323
1984	6,574,598	3,092,275	3,482,323
1985	6,574,598	3,092,275	3,482,323
1986	6,574,598	3,092,275	3,482,323
1987	6,574,598	3,092,275	3,482,323
1988	6,574,598	3,092,275	3,482,323
1989	6,574,598	3,092,275	3,482,323
1990	6,574,598*	3,092,275*	3,482,323*
1991	6,574,598*	3,092,275*	3,482,323*
1992	5,054,598*	2,319,507*	2,735,091*
1993	6,536,774*	3,092,275*	3,444,499*
1994	6,436,774*	3,078,286*	3,358,458*
1995	6,371,049*	3,047,362*	3,323,687*
1996	6,240,998*	3,018,608*	3,222,390*
1997	2,974,389	1,528,768	1,445,621
1998	1,958,033	1,427,183	530,850
1999	1,727,824	1,250,444	477,380
2000	1,639,219	1,250,444	388,775
2001	1,616,837	1,235,602	381,235
2002	2,668,756	1,250,444	1,418,312
2003	4,392,389	2,965,479	1,426,910
2004	3,516,291	1,671,926	1,844,365
2005	3,808,856	1,978,537	1,830,319
2006	4,278,236	1,656,209	2,622,027
2007	2,394,856	1,662,500	732,356
2008	1,935,842	1,387,530	548,312

* Amount does not include reductions for excess investment income under the 13th check post-retirement adjustment mechanism for the Minneapolis Police Relief Association and for the Minneapolis Firefighters Relief Association.

The amortization state aid has decreased over the life of the program (1980-2008), over the most recent 21-year period (1987-2008), and over the most recent 20-year period (1988-2008) for the aid in total, for the aid for paid firefighters, and for the aid for police, with the average annual compound rates of decrease for the total aid of -4.4 percent for 28 years, -6.0 percent for 21 years, and -6.3 percent for 20 years, for the paid firefighter aid of -2.85 percent for 28 years, -4.0 percent for 21 years, and -4.2 percent for 20 years, and -6.8 percent for 28 years, -9.2 percent for 21 years, and -9.4 percent for 20 years.

- (c) Qualification Requirements for Receipt of Amortization State Aid. Initially, in 1980, municipalities with a local police or paid fire relief association governed by the 1969 Police and Paid Fire Relief Association Financing Guidelines Act (Minnesota Statutes, Sec. 69.77) and began phasing out into the PERA-P&F were eligible to receive local police and paid fire relief association amortization aid. These municipalities qualified for amortization state aid if they applied to the Commissioner of Finance for the aid, complied with the police and fire state aid program aid deposit and financial reporting requirements, and complied with the 1969 Financing Guidelines Act.

Under 1985 legislation (Laws 1985, Ch. 261, Sec. 5), municipalities that qualified for amortization state aid with a local relief association remained qualified for amortization state aid following consolidation with PERA-P&F.

In 1986 (Laws 1986, Ch. 359, Sec. 17), the administration of the amortization state aid program was transferred from the Commissioner of Finance to the Commissioner of Revenue.

In 1992 (Laws 1992, Ch. 437, Sec. 1), the qualification requirement of a local relief association phase-out into PERA-P&F was eliminated, recognizing that all local police and paid fire relief associations were closed to new entrants by that date and the continued existence of an unfunded actuarial accrued liability in the most recent actuarial valuations under the state actuarial reporting law (Minnesota Statutes, Sec. 356.215) was added as a requirement. Upon its relief association becoming fully funded under the 1992 legislation, the applicable municipality lost its eligibility for amortization state aid for that year and all subsequent years. Also in 1992, for consolidation accounts, eligibility for amortization state aid was clarified as a function of whether or not the municipality had an additional municipal contribution under the consolidation law (Minnesota Statutes, Sec. 353A.09, Subd. 5).

In 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 9), the portion of prior amortization aid under \$5.72 billion that is released on behalf of fully funded local police or paid fire relief associations or local police or paid fire consolidation accounts within PERA-P&F was redirected from cancellation back to the state general fund to the Minneapolis Teachers Retirement Fund Association (MTRFA), to the St. Paul Teachers Retirement Fund Association (SPTRFA), and to fund the minimum volunteer firefighter fire state aid provision (Minnesota Statutes, Sec. 69.021, Subd. 7, Para. (d)). The minimum volunteer firefighter fire state aid amount has no qualification requirements. The MTRFA and SPTRFA redirected portion of the aid is dependent on having an unfunded actuarial accrued liability and a funding ratio less than that of the statewide Teachers Retirement Association (TRA), on each applicable school district making a required additional contribution to the respective teacher retirement fund association (\$200,000 in 1998 increasing to \$800,00 in 2001 and thereafter by Independent School District No. 625; and \$250,000 in 1998 increasing to \$1,000,000 in 2003 and thereafter by Special School District No. 1), and, for the MTRFA, on the city of Minneapolis making a required additional contribution to the teachers retirement fund association (\$250,000 in 1998 increasing to \$1,000,000 in 2003 and thereafter).

In 1997 (Laws 1997, Ch. 241, Art. 9, Sec. 1), a municipality that lost eligibility for local police and paid fire relief association amortization state aid because of its consolidation account becoming fully funded and again has an additional municipal contribution due to the 1997 actuarial assumption changes approved for PERA-P&F and the various consolidation accounts would regain eligibility for the amortization state aid and supplemental amortization state aid.

In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 15-18), municipalities with former consolidation accounts in PERA which had additional contributions from the merger with PERA-P&F retained eligibility for amortization state aid and supplemental amortization aid.

In 2006 (Laws 2006, Ch. 277, Art. 3, Sec. 42), the MTRFA portion of the redistributed amortization and supplemental amortization state aid was made payable to TRA following the consolidation of the MTRFA into TRA.

In 2009 (Laws 2009, Ch. 88, Art. 12, Sec. 15-17), the amortization state aid was made an open and standing General Fund appropriation, rather than a biennial appropriation as it was prior to 2004, and aid for fiscal years 2004 through 2008 was appropriated retroactively to the applicable year.

- (d) Allocation of Local Police and Paid Fire Relief Association Amortization State Aid. Local police and paid fire relief association amortization state aid is allocated on the basis of the difference between the five percent interest on the relief association unfunded actuarial accrued liability as of December 31, 1978, as reported under the actuarial reporting law (Minnesota Statutes, Sec. 356.215 and 356.216) and the 32-year (year 2010), five percent interest level dollar amortization requirement for the same relief association unfunded actuarial accrued liability. Under Minnesota Statutes 1978, Sec. 69.77, all municipalities with local police or paid fire relief associations were required as of 1980 to freeze their unfunded actuarial accrued liabilities by paying the actuarially assumed interest rate (five percent) on the unfunded actuarial accrued liability in addition to the relief association normal cost. In 1980, these municipalities were newly required to amortize those unfunded actuarial accrued liabilities and the amortization state aid provided the necessary additional funding support.

In 1989-1991, the amortization state aid payable to Minneapolis was reduced with the addition of the “thirteenth check” post-retirement adjustment mechanism for the Minneapolis Police Relief Association and for the Minneapolis Firefighters Relief Association and the reduction was made permanent. In 1996 legislation (Laws 1996, Ch. 438, Art. 4, Sec. 10-13), the Minneapolis police and fire “thirteenth check” investment performance threshold was redefined such that the post-retirement adjustment is a virtual future certainty and Minneapolis is essentially eliminated from the amortization state aid allocation.

Initially, in 1980, the amortization state aid was payable in four roughly quarterly equal installments (March 15, July 15, September 15, and December 15). In 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 8), the frequency of amortization state aid payments was reduced to three equal installments (July 15, September 15, and November 15).

In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 17), a limit on the total amount of amortization state aid, supplemental amortization state aid, and additional amortization state aid was put into place, set at the total employer contribution, with any overages redistributed.

In 2009 (Laws 2009, Ch. 169, Art. 8, Sec. 2-3), municipalities with a local police or paid firefighter relief association that previously became fully funded, lost eligibility for amortization state aid as a consequence, and then had an unfunded actuarial accrued liability were granted renewed eligibility for amortization state aid and the reallocation of amortization or supplemental amortization state aid was revised to reduce the portion payable to the Teachers Retirement Association (TRA) on behalf of the consolidated former Minneapolis Teachers Retirement Fund Association (MTRFA) from 49 percent (70 percent of 70 percent) to 35 percent (50 percent of 70 percent) to increase the St. Paul Teachers Retirement Fund Association (SPTRFA) from 21 percent (30 percent of 70 percent) to 28 percent (40 percent of 70 percent), and the Duluth Teachers Retirement Fund Association (DTRFA) at 7 percent (10 percent of 70 percent).

When the amortization state aid program was established in 1980, one-half of the total aid was allocated to Minneapolis, one-quarter of the total aid was allocated to St. Paul, one-eighth of the total aid was allocated to Duluth, and one-eighth of the total aid was allocated to the balance of the state. In 2008, the amortization state aid was no longer payable to Minneapolis, 2.12 percent was payable to St. Paul, 57.78 percent was payable to Duluth, and 40.1 percent was payable to the balance of the state.

- (e) Permissible Uses of the Amortization State Aid. Local police and paid fire relief association amortization state aid is payable to the treasurer of the applicable municipality and is required to be transmitted to the respective relief association treasurer for immediate deposit in the relief association.

8. Supplemental Police and Paid Fire Amortization State Aid

- (a) Establishment. The supplemental police and paid fire amortization state aid was initially established in 1984 (Laws 1984, Ch. 564, Sec. 48). The aid program was not initially codified. The supplemental amortization state aid was intended to provide state assistance to the then-existing 48 local police and paid fire relief associations in addition to that provided by the local police and paid fire relief association amortization state aid.

The supplemental amortization state aid was finally codified as Minnesota Statutes, Sec. 423A.02, Subd. 1a, in 1991 (Laws 1991, Ch. 345, Art. 1, Sec. 92).

- (b) Source of Supplemental Police and Paid Fire Amortization State Aid Revenue. The supplemental police and paid fire amortization state aid was initially funded from an open and standing appropriation from the state general fund (Laws 1984, Ch. 564, Sec. 48). In 1991, the appropriation was shifted from an open and standing appropriation to a direct biennial appropriation.

In 2009 (Laws 2009, Ch. 88, Art. 12, Sec. 15-17), the amortization state aid and supplemental amortization state aid was made an open and standing General Fund appropriation, rather than a biennial appropriation as it was prior to 2004, and aid for fiscal years 2004 through 2008 was appropriated retroactively to the applicable year.

The following sets forth the total supplemental amortization state aid from the program's inception in 1984 through 2008:

Supplemental Police and Paid Fire Amortization State Aid					
Year	Total Supplemental Amortization State Aid	Percent Change	Year	Total Supplemental Amortization State Aid	Percent Change
1984	\$1,000,000	--	1997	\$520,244	-0.3%
1985	1,000,000	0.0%	1998	435,333	-16.3
1986	1,000,000	0.0	1999	543,483	24.8
1987	1,000,000	0.0	2000	529,703	-2.5
1988	1,000,000	0.0	2001	279,229	-47.3
1989	1,000,000	0.0	2002	749,526	168.4
1990	1,000,000	0.0	2003	749,526	0.0
1991	1,000,000	0.0	2004	749,526	0.0
1992	1,000,000	0.0	2005	749,526	0.0
1993	553,000	-44.7	2006	749,526	0.0
1994	1,000,000	80.8	2007	572,136	-23.7
1995	1,000,000	0.0	2008	572,136	0.0
1996	521,604	-47.8			

The total supplemental amortization state aid decreased over the 24-year history of the program at a -2.3 percent average annual compound rate.

- (c) Qualification Requirements for Receipt of Supplemental Police and Paid Fire Amortization State Aid. Initially, in 1984 (Laws 1984, Ch. 564, Sec. 48) and currently, the sole requirement to qualify to receive supplemental amortization state aid was entitlement to receive local police and paid fire relief association amortization state aid.
- (d) Allocation of Supplemental Amortization State Aid. Initially, in 1984, supplemental amortization state aid was allocated in proportion to the relationship that each applicable relief association's most recent unfunded actuarial accrued liability bears to the most recent total unfunded actuarial accrued liabilities of all applicable relief associations.

In 1985 (Laws 1985, Ch. 261, Sec. 17), the allocation procedure for supplemental amortization state aid changed to an allocation in proportion to the relationship that each relief association's December 31, 1983, unfunded actuarial accrued liability bears to the most recent total unfunded actuarial accrued liabilities of all applicable relief associations. In the 1991 codification of the supplemental amortization state aid (Laws 1991, Ch. 345, Art. 1, Sec. 92), the allocation procedure was returned to the 1984 allocation procedure (most recent actuarial valuation results) and the aid was made payable to the applicable relief associations. In 1992, clarifying the 1991 codification, the allocation procedure was revised again to incorporate the

1985 allocation procedure (December 31, 1983, actuarial valuation results) and the aid was made payable to municipalities rather than directly to relief associations.

Allocations of supplemental amortization state aid are adjusted over time. Under the “thirteenth check” post-retirement adjustment mechanism of the Minneapolis Police Relief Association and of the Minneapolis Firefighters Relief Association (Laws 1989, Ch. 319, Art. 19, Sec. 7), if sufficient excess investment income is generated to permit the payment of a “thirteenth check” post-retirement adjustment, supplemental amortization state aid is also reduced with amortization state aid by the amount of the thirteenth check post-retirement adjustment payments. If police or paid fire relief associations become fully funded and consequently lose eligibility for supplemental amortization state aid, the supplemental amortization state aid attributable to that relief association is reallocated to all remaining relief associations.

In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 15-18), municipalities with former consolidation accounts in PERA which had additional contributions from the merger with PERA-P&F retained eligibility for amortization state aid and supplemental amortization aid.

In 2006 (Laws 2006, Ch. 277, Art. 3, Sec. 42), the MTRFA portion of the redistributed amortization and supplemental amortization state aid was made payable to TRA following the consolidation of the MTRFA into TRA.

The following summarizes the allocation of the supplemental amortization state aid between police relief associations and paid fire relief associations 1984-2007:

Supplemental Police and Paid Fire
Amortization State Aid: Fire/Police Allocation

Year	Total Supplemental State Aid	Percent Change	Fire Portion	Percent Change	Police Portion	Percent Change
1984	\$1,000,000	--	\$489,389	--	\$510,611	--
1985	1,000,000	0.0%	489,389	0.0%	510,611	0.0%
1986	1,000,000	0.0	489,389	0.0	510,611	0.0
1987	1,000,000	0.0	489,389	0.0	510,611	0.0
1988	1,000,000	0.0	489,389	0.0	510,611	0.0
1989	1,000,000	0.0	489,389	0.0	510,611	0.0
1990	1,000,000	0.0	489,389	0.0	510,611	0.0
1991	1,000,000	0.0	489,389	0.0	510,611	0.0
1992	1,000,000	0.0	489,389	0.0	510,611	0.0
1993	553,000	-44.7	288,410	-41.1	264,590	-48.2
1994	1,000,000	80.8	499,828	73.3	500,172	89.0
1995	1,000,000	0.0	497,101	-0.5	502,899	0.5
1996	521,604	-47.8	281,733	-43.3	239,871	-52.3
1997	520,244	-0.3	287,510	2.1	232,734	-3.0
1998	435,333	-16.3	330,299	14.9	105,034	-54.9
1999	543,483	24.8	411,135	24.5	132,348	26.0
2000	529,703	-2.5	415,993	1.2	113,710	-14.1
2001	279,229	-47.3	165,519	-60.2	113,710	0.0
2002	749,526	168.4	165,519	0.0	584,007	413.6
2003	749,526	0.0	165,519	0.0	584,007	0.0
2004	749,526	0.0	165,519	0.0	584,007	0.0
2005	749,526	0.0	165,519	0.0	584,007	0.0
2006	749,526	0.0	165,519	0.0	584,007	0.0
2007	572,136	-23.7	165,519	0.0	406,617	-30.3
2008	572,136	0.0	147,374	-11.0	424,762	4.5

(e) Permissible Uses of Supplemental Police and Paid Fire Amortization State Aid.

Supplemental amortization state aid is only permitted to be used by a municipality for transmittal to the applicable local police or paid fire relief association treasurer for immediate deposit into the relief association special fund.

9. Pre-1974 Retiree MERF Special Post-Retirement Adjustment Aid

- (a) Establishment. The Minneapolis Employees Retirement Fund (MERF) special post-retirement adjustment and related State General Fund support was established in 1991 (Laws 1991, Ch. 345, Art. 4, Sec. 5). The provision was originally coded as Minnesota Statutes, Sec. 356.865, and was recodified in 2002 as Minnesota Statutes, Sec. 356.43. The special post-retirement adjustment applies to retirees with an annuity calculated under the laws in effect before March 5, 1974, or calculated as a “\$2 bill and annuity” annuity.

- (b) Source of the Pre-1974 Retiree MERF Special Post-Retirement Adjustment Aid. The state contribution to support the pre-1974 MERF special post-retirement adjustments was funded from 1991 to 2001 from the State General Fund.
- (c) Qualification Requirements for Receipt of the Pre-1974 Retiree MERF Special Post-Retirement Adjustment Aid. There were no qualification requirements for the City of Minneapolis and MERF to receive the annual state contribution.
- (d) Amount of the Pre-1974 Retiree MERF Special Post-Retirement Adjustment Aid. The amount of the state support for the pre-1974 retiree MERF special post-retirement adjustment was initially (1991) unspecified and unlimited. In 1995, as part of amendments assembled by the Department of Finance and MERF, the amount of the state support was specified as \$550,000 annually, payable quarterly, and was to be added to the general state contribution to MERF under Minnesota Statutes, Sec. 422A.101, Subd. 3. After 2001, the amortization requirement for the special post-retirement adjustment was required to be added to the MERF financial requirements, effectively folding the requirement into the general MERF funding, including a state contribution.

The actual state support for the pre-1974 retiree MERF special post-retirement adjustment varied over time, as follows:

Pre-1974 Retiree MERF Special Post-Retirement Adjustment Aid		
Fiscal Year	State Contribution	Percent Change
1992	\$838,000	--
1993	774,788	-0.8%
1994	748,960	-3.3
1995	703,380	-6.1
1996	649,029	-7.7
1997	601,266	-7.4
1998	559,812	-6.9
1999	524,653	-6.3
2000	510,647	-2.7
2001	483,729	-5.3
2002	0*	100.0

* Separate state contribution was folded into general state contribution to MERF described in Item 5

- (e) Permissible Uses of Pre-1974 Retiree MERF Special Post-Retirement Adjustment Aid. The state support for the pre-1974 retiree MERF special post-retirement adjustment was deposited into the MERF Retirement Benefit Fund and is permitted to be expended only to make benefit payments or transfers back to the Deposit Accumulation Fund upon annual mortality gain determinations.

10. 1993 State Supplemental MTRFA/SPTRFA Contributions

- (a) Establishment. In 1993 (Laws 1993, Ch. 357, Sec. 3 and 4), an annual supplemental state contribution was established for the former Minneapolis Teachers Retirement Fund Association (MTRFA) and for the St. Paul Teachers Retirement Fund Association (SPTRFA). The program was coded as Minnesota Statutes, Sec. 354A.12, Subd. 3b. The supplemental state contributions were recommended by the Legislative Commission on Pensions and Retirement (LCPR) and enacted by the Legislature to provide additional financial support for the two first class city teacher retirement fund associations that were significantly underfunded compared to other Minnesota public pension plans. The aid for SPTRFA was folded into the 1997 state supplemental SPTRFA aid in 1997 (Laws 1997, Ch. 233, Art. 3, Sec. 4). The aid for the former MTRFA was redirected to the statewide Teachers Retirement Association (TRA) upon the consolidation of MTRFA into TRA in 2006 (Laws 2006, Ch. 277, Art. 3).
- (b) Source of the 1993 State Supplemental MTRFA/SPTRFA Contributions. The 1993 state supplemental MTRFA/SPTRFA contributions are funded as an open and standing appropriation from the State General Fund.
- (c) Qualification Requirements for 1993 State Supplemental MTRFA/SPTRFA Contributions. There are no qualification requirements for the SPTRFA to meet in order to receive this state funding. For the MTRFA, the state funding is a matching amount, done on \$1,000

increments, based on additional funding provided in equal proportions by Special School District No. 1 (Minneapolis) and by the City of Minneapolis. The MTRFA amount was capped at \$2.5 million in 1994, indexed to the increase in general education aid.

- (d) Amount of 1993 State Supplemental MTRFA/SPTRFA Contributions. The amount of the supplemental state contributions to MTRFA and SPTRFA under Laws 1993, Ch. 357, Sec. 3 and 4, is as follows:

<u>1993 State Supplemental MTRFA/SPTRFA Contributions</u>		
<u>Fiscal Year</u>	<u>State Contribution to MTRFA</u>	<u>State Contribution to SPTRFA</u>
1994	\$2,500,000	\$500,000
1995	2,500,000	500,000
1996	2,500,000	500,000
1997	2,500,000	*
1998	2,500,000	*
1999	2,500,000	*
2000	2,500,000	*
2001	2,500,000	*
2002	2,500,000	*
2003	2,500,000	*
2004	2,500,000	*
2005	2,500,000	*
2006	2,500,000**	*
2007	2,500,000**	*
2008	2,500,000**	*

* In 1997 (Laws 1997, Ch. 233, Art. 3, Sec. 4), this aid amount was folded into the 1997 state supplemental SPTRFA contribution.

** In 2006 (Laws 2006, Ch. 277, Art. 3), the former MTRFA state aid was redirected to TRA as part of the consolidation of the plan.

- (e) Permissible Uses of 1993 State Supplemental MTRFA/SPTRFA Contributions. The state funding under Minnesota Statutes, Sec. 354A.12, Subd. 3b, becomes an asset of the applicable pension plan and may be expended for any lawful purpose for the pension plan.

11. 1996 State Supplemental MTRFA/SPTRFA/DTRFA Contributions.

- (a) Establishment. In 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 9), an annual supplemental state contribution was established for the former Minneapolis Teachers Retirement Fund Association (MTRFA) and for the St. Paul Teachers Retirement Fund Association (SPTRFA). In 2009 (Laws 2009, Ch. 169, Art. 9, Sec. 3), the Duluth Teachers Retirement Fund Association (DTRFA) was included in the annual supplemental contribution. The program is coded as Minnesota Statutes, Sec. 423A.02, Subd. 3. The supplemental state contribution is an attempt to redirect a pension aid program that had a diminished need to the first class city teacher retirement fund associations originally with the greatest funding need and currently all first class city teacher retirement fund associations.
- (b) Source of the 1996 State Supplemental MTRFA/SPTRFA/DTRFA Contributions. The 1996 state supplemental contributions to the former MTRFA, DTRFA, and SPTRFA are funded from a substantial portion of the aid amounts released in the local police and paid firefighter relief associations amortization aid and supplemental amortization aid programs by local public safety pension plans that have become fully funded. The amount for allocation is 70 percent of the difference between the amount of \$5,720,000 and the current year's total amortization aid and supplemental amortization aid amounts. The amortization aid and supplemental amortization aid programs are funded by an open and standing appropriation from the State General Fund.

In 2006 (Laws 2006, Ch. 277, Art. 3), the former MTRFA state contribution was redirected to the Teachers Retirement Association (TRA), into which the MTRFA was consolidated.

In 2009 (Laws 2009, Ch. 169, Art. 9, Sec. 3), the DTRFA was added as a recipient of the state contribution and the allocation of the state contribution was modified, with the former MTRFA/TRA portion reduced from 49 percent of the available amount to 35 percent, with the SPTRFA portion increased from 21 percent to 28 percent, and with DTRFA granted seven percent.

- (c) Qualification Requirements for 1996 State Supplemental MTRFA/SPTRFA/DTRFA Contributions. In order to receive the 1996 state supplemental MTRFA/SPTRFA/DTRFA state aid, Independent School District No. 625 with respect to the SPTRFA, and the City of Minneapolis and Special School District No. 1 (Minneapolis) with respect to the former MTRFA, must make additional contributions to the applicable retirement plan.

In 2006 (Laws 2006, Ch. 277, Art. 3), the Minneapolis city and school district additional employer contributions were made mandatory and were made payable to TRA as the successor-in-interest to the former MTRFA.

The minimum contribution requirements are as follows:

Fiscal Year	Former MTRFA/TRA		SPTRFA
	Minimum City Contribution	Minimum School District Contribution	Maximum School District Contribution
1996	\$0	\$0	\$0
1997	0	0	0
1998	250,000	250,000	200,000
1999	400,000	400,000	400,000
2000	550,000	550,000	600,000
2001	700,000	700,000	800,000
2002	850,000	850,000	850,000
2003	1,000,000	1,000,000	800,000
2004	1,000,000	1,000,000	800,000
2005	1,000,000	1,000,000	800,000
2006	1,000,000	1,000,000	800,000
2007	1,000,000	1,000,000	800,000
2008	1,000,000	1,000,000	800,000

Additionally, to qualify, the SPTRFA must have an unfunded actuarial accrued liability. Upon becoming fully funded, the amount earmarked for SPTRFA is redirected to TRA under Laws 2006, Ch. 277, Art. 3. Before 2006, the state aid to one retirement plan, upon becoming fully funded, was payable to the retirement plan which is not fully funded.

- (d) Amount of 1996 State Supplemental MTRFA/SPTRFA Contribution. Before 2009, the amount of the 1996 state supplemental MTRFA/SPTRFA contribution was 70 percent of the available funding for MTRFA and 30 percent of the available funding for SPTRFA, which translated into the following amounts:

Year	MTRFA	SPTRFA	Year	MTRFA	SPTRFA
1996	\$1,080,000	\$464,000	2003	\$1,717,935	\$1,030,761
1997	1,215,000	725,000	2004	1,732,935	1,039,761
1998	2,240,000	967,000	2005	1,741,268	1,044,761
1999	2,640,000	1,400,000	2006	1,744,602	1,046,761
2000	2,990,000	1,490,000	2007	2,163,692	1,298,216
2001	3,290,000	1,750,000	2008	1,927,192	1,156,320
2002	2,865,000	1,850,000			

- (e) Permissible Uses of 1996 State Supplementary MTRFA/SPTRFA Contributions. The state funding under Minnesota Statutes, Sec. 423A.02, Subd. 3, becomes an asset of the applicable pension plan and may be expended for any lawful purpose for the pension plan.

12. Ambulance Service Personnel Longevity Award and Incentive Program State Aid.

- (a) Establishment. The state financial support dedicated to the ambulance service personnel longevity award and incentive program was established in 1993 (First Special Session Laws 1993, Ch. 1, Art. 1, Sec. 1, Subd. 4). The ambulance service personnel longevity award and incentive program was established in 1993 (First Special Session Laws 1993, Ch. 1, Art. 9, Sec. 54 to 62). The program is coded as Minnesota Statutes, Sec. 69.021, Subd. 11, Para. (c), and 144E.21. The ambulance service personnel longevity award and incentive program state aid was intended to establish a statewide recruitment and retention tool for emergency medical

service personnel that would roughly parallel state-funded volunteer firefighter pension coverage.

In 2007 (Laws 2007, Ch. 11, Sec. 1), the ambulance service personnel longevity award and incentive program was renamed the Cooper/Sams Volunteer Ambulance Award Program.

- (b) Source of Program Revenue. Initially, the ambulance service personnel longevity award and incentive program state aid was a \$150,000 appropriation for fiscal year 1995.

In 1994 (Laws 1994, Ch. 632, Art. 3, Sec. 50), the ambulance service personnel longevity award and incentive program state aid was set at \$1 million in a deduction from any excess police state aid generated. The excess police state aid deduction was enacted in 1996 (Laws 1996, Ch. 390, Sec. 27). Excess police state aid is the difference between the dedicated insurance premium tax revenue raised for the police state aid and the maximum amount of police state aid actually payable, which is capped at the relevant employing unit's police officer pension cost.

In 2003 (First Special Session Laws 2003, Ch. 14, Art. 6, Sec. 1), the State General Fund appropriation from the excess police state aid holding account was reduced from \$1 million to \$900,000.

In 2007 (Laws 2007, Ch. 14, Art. 19, Sec. 7 and 13), the ambulance service personnel longevity award and incentive program open and standing appropriation, \$900,000 annually from the excess police state aid holding account, was removed. For fiscal years 2008 and 2009, annual appropriations of \$700,000 per year was made from the State General Fund to that program, but in fiscal year 2008, \$800,000 was transferred from the ambulance service personnel longevity award and incentive trust to the general fund, creating a net negative \$100,000 appropriation.

In 2009 (Laws 2009, Ch. 79, Art. 13, Sec. 6), \$700,000 in fiscal year 2010 and \$700,000 in fiscal year 2011 was appropriated to the Emergency Medical Services Board for the Cooper-Sams Volunteer Ambulance Program, but \$6,182,000 was transferred from the Cooper-Sams Volunteer Ambulance Trust to the State General Fund in fiscal year 2010 and \$100,000 was appropriated from the Cooper Sams Volunteer Ambulance Trust to the Comprehensive Advanced Life-Support Education Program under Minnesota Statutes, Sec. 144E.37, in 2010.

- (c) Qualification Requirements for Receipt of Aid. The ambulance service personnel longevity award and incentive program state aid is payable to the Cooper-Sams Volunteer Ambulance Trust without any specified qualification requirements.
- (d) Allocation of Ambulance Service Personnel Longevity Award and Incentive Program State Aid. The state aid initially was a \$1 million deduction from excess police state aid, was reduced to a \$900,000 deduction from excess police state aid in 2003, and was disconnected from excess police state aid in 2007, with \$900,000 annually of excess police state aid cancelled to the State General Fund. The state aid for the ambulance service personnel longevity award and incentive program was initially payable to a suspense account. The suspense account made transfers to the trust fund for the program on a phased-in basis, as follows:

<u>Ambulance Service Personnel Longevity Award and Incentive Program State Aid Allocation</u>	
<u>Fiscal Year</u>	<u>Suspense Account Percentage Available for Transfer</u>
1995	20%
1996	40
1997	50
1998	60
1999	70
2000	80
2001	90
2002 and thereafter	100

The revenue of the program, after administrative expenses and any legislated trust fund transfers or deductions, is credited to member accounts within the trust fund and is eventually paid as benefits.

- (e) Permissible Uses of Ambulance Service Personnel Longevity Award and Incentive Program State Aid. The state aid for the ambulance service personnel longevity award and incentive program must be deposited in the ambulance service personnel longevity award and incentive program trust fund and, unless legislated transfers are made, may be used solely for the payment of administrative expenses of the program and of longevity awards.

13. Minimum Volunteer Fire State Aid Program

- (a) Establishment. The minimum volunteer fire state aid program was enacted in 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 2). The program is codified as Minnesota Statutes, Sec. 69.021, Subd. 7, Para. (d), and 423A.01, Subd. 7, Para. (a). The minimum fire state aid program was an effort to address a longstanding concern that the state fire tax aid provides unreasonable low aid amounts per firefighter in many communities in the state. Many jurisdictions were receiving well under \$100 per firefighter. After the minimum fire state aid program was introduced, the floor aid per eligible firefighter was increased to slightly over \$260 per firefighter.
- (b) Source of Minimum Fire State Aid. Thirty percent of any unallocated amortization or supplemental amortization state aid is dedicated as a minimum fire state aid amount for volunteer fire relief associations. Amortization state aid and supplemental amortization state aid becomes unallocated when there is the payment of a thirteenth check by the Minneapolis Fire Relief Association or by the Minneapolis Police Relief Association or when a former local police or paid firefighter consolidation account became fully funded.

The amount of amortization state aid and supplemental amortization state aid dedicated to the minimum fire state aid (and added to the fire insurance premium tax equivalent amount dedicated to pension purposes and already included in the total fire state aid in the preceding section) is as follows:

Minimum Volunteer Fire State Aid			
Year	Total Additional Aid Dedicated to Volunteer Firefighters	Year	Total Additional Aid Dedicated to Volunteer Firefighters
1996	\$663,788	2003	\$615,373
1997	667,610	2004	615,373
1998	974,076	2005	606,058
1999	1,034,608	2006	615,373
2000	1,210,366	2007	977,451
2001	1,065,323	2008	974,743
2002	1,846,119		

The average annual compound rate of increase in the total amount of minimum fire state aid was 3.25 percent over the 12-year period.

In 2008 (Laws 2008, Ch. 349, Art. 8, Sec. 3), when contributions to PERA-P&F relating to former local police and paid fire consolidation accounts is no longer needed after 2009 or 2010, 40 percent of any available additional amortization aid that had been used to meet the obligations of those accounts was redirected to support the minimum state aid for volunteer fire pensions.

- (c) Qualification Requirements for the Receipt of Minimum Fire State Aid. The minimum volunteer firefighter fire state aid is payable to municipalities with volunteer firefighters and with fire state aid calculated on the basis of relative property value and relative population that is modest, with these minimum receipt municipalities brought up to the minimum fire state aid amount for firefighters, not to exceed 30, until the funding dedicated for the program is exhausted. Roughly half of the municipalities with volunteer firefighter relief associations receive some minimum fire state aid amount.

In 1999 (Laws 1999, Ch. 222, Art. 5), volunteer fire relief associations established after 1993 were made eligible for inclusion in the minimum floor fire aid distribution, using the 1998 member count for those post-1993 relief associations, not to exceed 30 firefighters.

In 2000 (Laws 2000, Ch. 461, Art. 5, Sec. 1), volunteer fire relief associations established after 1999 were made eligible for inclusion in the minimum floor fire aid distribution. The member count the association will use in the distribution is the member count, up to a limit of 20 firefighters, reported in the first annual financial reporting submitted to the State Auditor by the association.

- (d) Allocation of Minimum Fire State Aid. The minimum fire state aid program is targeted to volunteer fire relief associations which receive low aid per firefighter under the state fire tax aid program. The firefighter count used in the allocation procedure is the number of firefighters, not to exceed 30, in each relief association in 1993 if the relief association existed in 1993, or in 1998 if the relief association was created after 1993 but before 1999, and in the first report to the State Auditor if established after 1999. The minimum floor fire state aid program brings the funding for these associations receiving the least aid per firefighter up to a higher, uniform level.

The floor fire state aid amount per firefighter over time is as follows:

Minimum Fire State Aid					
Fiscal Year	Floor Amount per Firefighter	Percent Change	Fiscal Year	Floor Amount per Firefighter	Percent Change
1996	\$264.52	--	2003	\$319.22	13.3%
1997	262.22	-0.9%	2004	374.39	17.3
1998	313.13	19.4	2005	365.71	-2.3
1999	321.26	2.6	2006	387.00	5.8
2000	329.32	2.5	2007	417.10	7.8
2001	326.60	-0.8	2008	381.87	-8.4
2002	281.80	-13.7			

The average annual compound rate of increase in the minimum fire state aid amount per firefighter was 3.125 percent over the 12-year period 1996-2008.

- (e) Permissible Uses of Minimum Fire State Aid. Minimum fire state aid is included in the fire state aid allocation and is subject to the same permissible use as fire state aid.

14. Additional Amortization State Aid

- (a) Establishment. The additional amortization state aid was established in 1995 (Laws 1995, Ch. 262, Art. 4, Sec. 1). The additional amortization state aid was intended by the Legislative Commission on Pensions and Retirement to provide additional support to the remaining under-funded local police and paid fire relief associations and consolidation accounts from state resources previously dedicated for police pension funding purposes in the form of excess police state aid.

The additional amortization state aid program was moved from Minnesota Statutes, Sec. 353.65, Subd. 7, to Minnesota Statutes, Sec. 423A.02, in 1996 (Laws 1996, Ch. 390, Sec. 35). The 1996 legislation revised and rationalized the provisions of the 1995 legislation. The additional amortization state aid was effective October 1, 1997, by terms of both the 1995 and the 1996 legislation.

In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 15), the former Minneapolis Teachers Retirement Fund Association (MTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA) were made eligible to receive a portion of additional amortization aid newly released because the Minneapolis Police Relief Association, the Minneapolis Firefighters Relief Association, or the Virginia Fire Department Relief Association becomes fully funded, with the former MTRFA to receive 49 percent of the released aid, with the SPTRFA to receive 21 percent of the released aid, and 30 percent of the released aid payable as minimum volunteer firefighter aid.

Also in 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 16-17), municipalities with prior consolidation accounts with unfunded liabilities remained eligible for additional amortization aid for the duration of the required additional contributions. The total of amortization, supplemental amortization aid, and additional amortization aid to municipalities with former consolidation accounts with remaining amounts to amortize was capped at an amount equal to their level dollar amortization requirement. Any excess was redirected back to remaining eligible consolidation accounts and if any excess continued to exist, that excess was redirected to pension funds eligible for additional amortization state aid.

- (b) Source of Additional Amortization State Aid Revenue. Additional amortization state aid is funded from one-half of the amount of excess police state aid under Minnesota Statutes, Sec. 69.031, after deduction of the funding related to the statewide ambulance service personnel

longevity award and incentive program (\$1,000,000 annually from 1994 until 2002; \$900,000 annually from 2003 until 2007; but undedicated to the ambulance longevity program after 2007) and after deduction of any funding dedicated to a potential police officer stress reduction program, if enacted. The balance of the excess police state aid cancels to the state general fund.

Excess police state aid is generated by the relative generosity of the police state aid program, which provides aid per police officer in an amount larger than the public employer's pension obligation to the applicable public pension plan for most counties, municipalities, and townships receiving police state aid. Currently, police state aid is \$6,358.66 per police officer, covering the full employer pension obligation to PERA-P&F for any governmental employer with an average police officer salary under \$55,778 annually. Fiscal year 1996 through 1997 average PERA-P&F covered salary was \$43,851. For the 1997 police state aid allocation, 476 out of 506 recipients (94.07 percent) had excess police state aid, with the average excess police state aid of \$15,530.40 for each recipient with excess police state aid.

Additional amortization state aid was first paid on October 1, 1997. The 1997 additional amortization aid totaled \$3,196,236.

- (c) Qualification Requirements for Receipt of Additional Amortization State Aid. Local police and paid fire relief associations and consolidation accounts qualify for additional amortization state aid. For a local police or paid fire relief association or for a local police or paid fire consolidation account in PERA-P&F to qualify for additional amortization aid, the local relief association must comply with the 1969 Police and Paid Fire Relief Association Financing Guidelines Act, Minnesota Statutes, Sec. 69.77, and must have an unfunded actuarial accrued liability in the most recent actuarial valuation reports under the general actuarial reporting law, Minnesota Statutes, Sec. 356.215 and 356.216, and the local consolidation account must be certified by the Public Employees Retirement Association (PERA) executive director as having a current year additional municipal contribution and must have implemented any PERA-P&F benefit improvements that were enacted after the effective date of the consolidation.

In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 15), the teacher retirement fund associations newly made potentially eligible for additional amortization state aid had to have investment performance in excess of that of a composite return of indices for a hypothetical portfolio mix (10 percent cash/ 60 percent bond/30 percent stock).

In 2000 (Laws 2000, Ch. 461, Art. 9, Sec. 1), the minimum investment performance requirement for the receipt of additional amortization state aid for the St. Paul Teachers Retirement Fund Association (SPTRFA) and for the Minneapolis Teachers Retirement Fund Association (MTRFA) was eliminated.

In 2006 (Laws 2006, Ch. 277, Art. 3), the Teachers Retirement Association (TRA) was made eligible for any additional amortization state aid on behalf of the former Minneapolis Teachers Retirement Fund Association (MTRFA) by virtue of the MTRFA consolidation into TRA. Additional MTRFA and TRA cross-reference clarifications were made in 2007 (Laws 2007, Ch. 134, Art. 1).

- (d) Allocation of Additional Amortization State Aid. Additional amortization state aid is allocated in proportion to the relationship that each local police or paid fire relief association or local police or paid fire consolidation account's unfunded actuarial accrued liability bears to the total unfunded actuarial accrued liability of all eligible relief associations or consolidation accounts. The local relief association unfunded actuarial accrued liability figure is as of December 31, 1993, and the local consolidation account unfunded actuarial accrued liability figure is as of June 30, 1994.

In 2008 (Laws 2008, Ch. 349, Art. 8, Sec. 3), a provision was added that when contributions to PERA-P&F relating to police and paid fire consolidation accounts is no longer needed after 2009 or 2010, any available additional amortization aid that had been used to meet the obligations of those accounts was redirected, with 20 percent to the SPTRFA, 20 percent to the City of Minneapolis for Minneapolis Police Relief Association and Minneapolis Firefighters Relief Association obligations, 20 percent to the City of Duluth for police and firefighter pensions, and 40 percent to support the minimum state aid for volunteer fire pensions.

The following summarizes the allocation of additional amortization aid between police relief associations and paid fire associations in general during the period 1997-2008:

Additional Amortization State Aid: Fire/Police Allocation						
Year	Total Add'l. Amort. Aid	Percent Change	Fire Portion	Percent Change	Police Portion	Percent Change
1997	\$3,196,236	--	\$1,807,735	--	\$1,388,501	--
1998	3,434,031	7.4%	1,973,222	9.2%	1,460,809	5.2%
1999	2,106,474	-38.7	955,957	-51.6	1,150,517	-21.2
2000	4,164,411	97.7	2,154,721	125.4	2,009,690	74.7
2001	8,665,401	108.1	4,483,595	108.1	4,181,806	108.1
2002	5,161,643	-40.4	2,670,704	-40.4	2,490,939	-40.4
2003	5,180,670	0.4	1,984,870	-25.7	3,195,800	28.3
2004	6,990,276	34.9	2,668,772	34.5	4,321,504	35.2
2005	6,405,961	-8.4	2,446,911	-8.3	3,959,050	-8.4
2006	4,843,428	-24.4	1,840,218	-24.8	3,003,210	-24.1
2007	1,800,372	-62.8	687,752	-62.6	1,112,628	-63.0
2008	164,479	-90.9	62,832	-90.9	101,647	-90.9

Over the period 2005-2008, additional amortization aid was payable to 12 municipalities, as follows:

Additional Amortization State Aid: by Municipality				
Municipality/Plan	2005	2006	2007	2008
Anoka Police	\$12,184	\$9,103	\$3,384	\$309
Columbia Heights Police	32,127	24,003	8,922	815
Crookston Fire	11,520	9,848	3,661	334
Crookston Police	18,060	15,439	5,739	524
Crookston Total	29,580	25,287	9,400	858
Duluth Fire	1,429,746	1,068,221	397,073	36,276
Duluth Police	577,438	431,427	160,368	14,651
Duluth Total	2,007,184	1,499,648	557,441	50,927
Faribault Fire	131,060	110,403	41,038	3,749
Faribault Police	95,114	80,122	29,782	2,721
Faribault Total	226,174	190,525	70,820	6,470
Hibbing Fire	157,714	117,834	43,801	4,002
Hibbing Police	94,577	70,662	26,266	2,400
Hibbing Total	252,291	188,496	70,067	6,402
Mankato Fire	85,604	63,958	23,774	2,172
Minneapolis Police	2,839,137	2,121,232	788,493	72,035
St. Cloud Fire	244,871	182,953	68,006	6,213
South St. Paul Fire	63,257	55,570	20,656	1,887
South St. Paul Police	184,591	162,158	60,277	5,507
South St. Paul Total	247,848	217,728	80,933	7,394
Virginia Fire	107,920	80,632	29,972	2,738
Winona Fire	215,219	160,799	59,771	5,461
Winona Police	105,822	79,064	29,389	2,685
Winona Total	321,041	239,863	89,160	8146
Total	6,405,961	4,843,428	1,800,372	164,479

(b) Permissible Uses of Additional Amortization State Aid. Additional amortization state aid is payable solely and directly to the applicable relief association or consolidation account.

15. 1997 State Supplemental First Class City Teacher Retirement Fund Association Funding

(a) Establishment. In 1997 (Laws 1997, Ch. 233, Art. 3, Sec. 4), an annual supplemental state contribution was established for the Duluth Teachers Retirement Fund Association (DTRFA), the former Minneapolis Teachers Retirement Fund Association (MTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA). The program was coded as Minnesota Statutes, Sec. 354A.12, Subd. 3a. The supplemental state funding was an attempt to offset the cost of the 1997 benefit improvements and to bolster the funding of these financially troubled retirement plans.

- (b) Source of the 1997 State Supplemental First Class City Teacher Retirement Fund Association Funding. The 1997 state supplemental funding for the first class city teacher retirement fund associations is provided from the State General Fund as an open and standing appropriation, derived in part from a 1997 reduction in education aids related to a reduction in the Teachers Retirement Association (TRA) employer contribution rate.
- (c) Qualification Requirements for the 1997 State Supplemental First Class City Teacher Retirement Fund Association Funding. In order to receive the 1997 state supplemental funding for the first class city teacher retirement fund associations, the applicable first class city teacher retirement fund associations must be less than fully funded. Before 2008, upon full funding, the funding attributable to the retirement fund association is redirected to the remaining teacher retirement fund association or associations with an actuarial accrued liability.

In 2008 (Laws 2008, Ch. 349, Art. 8, Sec. 1), the direct state aid to teacher retirement plans was reallocated, with the total direct state to TRA on behalf of the former Minneapolis Teachers Retirement Fund Association (MTRFA) allocated to DTRFA, and the amount that SPTRFA would otherwise receive reduced by \$140,000, leaving SPTRFA with \$2,827,000 per year.

Also in 2008 (Laws 2008, Ch. 349, Art. 8, Sec. 4), the termination date for the aid program was reset to the date on which neither TRA nor SPTRFA has an unfunded actuarial accrued liability.

- (d) Amount of 1997 State Supplemental First Class City Teacher Retirement Fund Association Funding. The amount of the 1997 state funding for first class city teachers retirement fund association was as follows:

Year	DTRFA	MTRFA	SPTRFA*
1998	\$486,000	\$17,954,000	\$4,827,000
1999	486,000	12,954,000	2,827,000
2000	486,000	12,954,000	2,827,000
2001	0	13,300,000	2,967,000
2002	0	13,300,000	2,967,000
2003	0	13,300,000	2,967,000
2004	0	13,300,000	2,967,000
2005	0	13,300,000	2,967,000
2006	0	13,300,000	2,967,000
2007	0	13,300,300**	2,967,000
2008	346,000	12,954,000***	2,827,000

* The 1997 legislation rolled the 1993 aid amount into this aid program.

** The Teachers Retirement Association (TRA) became the successor in interest to the former MTRFA under Laws 2006, Ch. 277, Art. 3.

*** The Department of Finance delayed paying the MTRFA portion of the reallocated DTRFA direct state aid in 2008, which was retroactively appropriated in Laws 2008, Ch. 349, Art. 8.

- (e) Permissible Uses of 1997 State Supplemental First Class City Teachers Retirement Fund Association Funding. The state funding Minnesota Statutes, Sec. 354A.12, Subd. 3a, becomes an asset of the applicable pension plan and may be expended for any lawful purpose for the pension plan.

16. 1997 State Aid for the Public Employees Retirement Association (PERA-General) Employer Contribution Rate

- (a) Establishment. In 1997 (Laws 1997, Ch. 233, Art. 1, Sec. 14-15), an annual state aid program was established for counties, cities, townships, school districts, and other employing units covered by the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General). The program is coded as Minnesota Statutes, Sec. 124.2141 and 273.1385. The state aid program is an attempt to offset the employing units' cost of the 1997 PERA-General benefit increases.
- (b) Source of the 1997 State Aid for the PERA-General Employer Contribution Rate Increase. The 1997 state aid program for PERA-General employers is provided from the State General Fund, derived in part from a 1997 reduction in education aid related to a reduction in the Teachers Retirement Association (TRA) employer contribution rate.

- (c) Qualification Requirements for the 1997 State Aid for the PERA-General Employer Contribution Rate Increase. There are no qualification requirements in order to receive the 1997 state PERA-General employer contribution rate increase aid.
- (d) Amount of the 1997 State Aid for the PERA-General Employer Contribution Rate Increase. The amount of the 1997 state aid for the PERA-General employer contribution rate increase for the period 1997-2009 is as follows:

Calendar Year	Total Aid Amount	Number of Local Government Recipients*	Calendar Year	Total Aid Amount	Number of Local Government Recipients*
1997	\$7,474,767	1,155	2004	\$14,584,168	1,140
1998	14,787,945	1,146	2005	14,568,491	1,139
1999	14,787,945	1,146	2006	14,560,188	1,135
2000	14,586,183	1,144	2007	14,533,713	1,132
2001	14,586,176	1,140	2008	14,520,048	1,129
2002	14,585,456	1,140	2009	14,389,649	1,129
2003	14,585,074	1,141			

* Reflects number of consolidated payments made to counties, cities, towns and special districts.
Actual number of PERA units receiving aid for 2009 is 1,534.

Source: Minnesota Department of Revenue

The 1997 state aid for the PERA-General employer contribution increase amount for each recipient governmental unit was 0.35 percent of the PERA-General covered payroll in fiscal year 1997 for fiscal year 1998 and 0.70 percent of the PERA-General covered payroll in fiscal year 1997 for each subsequent fiscal year. The 1997 state aid for the PERA-General employer contribution increase to school districts, charter schools, and other eligible educational employers by the Commissioner of Children, Families and Learning/Education and to counties, cities, and townships by the Commissioner of Revenue.

The aid to educational entities was frozen at the fiscal year 1999 level and the aid to other local governmental units was frozen at no more than the fiscal year 1999 level.

- (e) Permissible Uses of the 1997 State Aid for the PERA-General Employer Contribution Rate Increase. The state aid under Minnesota Statutes, Sec. 124.2141 and 273.1385, becomes revenue of local governmental employers and its use by local governmental units is not restricted for particular retirement purposes. Aid amounts are adjusted annually based on PERA certifications if a unit's PERA-General covered payroll is significantly lower than the fiscal year 1997 amount and any resulting reduction is permanent.

Summary of Commission Staff Observations Relating to Past Retirement-Related State Aid Programs

- a. State Retirement-Related Assistance in Context. The Commission interim study arose principally out of the 2009 proposed legislation providing for a consolidation of the Minneapolis Employees Retirement Fund (MERF) into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) and House actions that would have required a study of creating a consolidation assistance fund financed by the State of Minnesota. The interim study raises questions about what lessons past state pension aid programs have to teach the Commission.
- b. Present State Retirement-Related Aid Programs. The current pension state aid programs may be the basis for future state pension financial assistance programs and may influence the source of any future state retirement-oriented financial assistance program conjoined with permitting, encouraging, or mandating pension plan consolidations.

There have been 16 state retirement-related state aid programs established in Minnesota over a period of 124 years, with all but three of those state aid programs occurring since 1971. During that 31-year period, three of the 13 most recent state pension paid programs occurred during the 1980s, and eight of the 13 most recent state pension paid programs occurred during the 1990s. No state pension aid programs have been created in the past dozen years.

The Minnesota pension-related state aid programs reflect one or more apparent motivating events, issues, or concerns. The motivations identified by the Commission staff for current public pension-related state aids, with example state aid programs, are:

1. General Service Support: Not Originally Dedicated for Public Pension Programs.

- The 1885 Fire State Aid program was created to support local government firefighting activities, including, but not limited to, the relief of disabled firefighters or the survivors of deceased firefighters.

2. Addressing Funding Difficulties.

- The 1934 first class city fire insurance premium surcharge program was created to provide financial support for Duluth, Minneapolis, and St. Paul fire department relief associations, which were deemed to be in financial distress.
- The 1978 state assumption of a portion of Minneapolis Employees Retirement Fund (MERF) employer pension contributions was created to change Minneapolis' obligation to fund that retirement plan from a variable and increasing amount to a fixed amount.
- The 1980 local police and paid fire relief association amortization state aid program was created to provide the 30 municipalities with local police or paid firefighter relief associations with funding equal to their increased employer obligation under state law.
- The 1984 supplemental amortization state aid program was intended to augment amortization state aid for poorly funded local police and paid firefighter relief associations.
- The 1993, 1996, and 1997 first class city teacher retirement fund association state aid programs were intended to provide additional funding for the problematically funded local teacher retirement plans.

3. Fund Historic/Traditional State Retirement Obligation.

- The 1915 Teacher Insurance and Retirement Fund state contribution, its replacement by the 1931 Teachers Retirement Association (TRA) state contribution, and the 1967 and 1980s teacher retirement state funding revisions provide state resources for retirement coverage where the state is considered to be the direct or indirect employer.
- The 1991 Minneapolis Employees Retirement Fund (MERF) pre-1974 retiree post-retirement adjustment state funding program provided state funding for special post-retirement adjustments for certain pre-1974 retirees previously funded on a lump sum ad hoc basis.
- The 1993, 1996, and 1997 first class city teacher retirement fund association state aid programs augmented other state funding for employees considered to be the direct or indirect responsibility of the state.

4. Offset Legislated Benefit Increases.

- The 1979 volunteer firefighter lump sum supplemental benefit state reimbursement program was created to offset the outlay of legislatively mandated supplemental lump sum benefit for volunteer firefighters' relief associations.
- The 1997 first class city teacher direct state aid offset, in whole or in part, the actuarial cost of benefit increases enacted.
- The 1997 Public Employees Retirement Association (PERA) employer contribution increase state aid program provided an amount equal to the increased employer contribution resulting from a 1997 benefit increase for the PERA General Employee Retirement Plan (PERA-General).
- The 1980 local police and paid firefighter state aid amortization state aid was established to avoid an unfunded state mandate when local police and paid fire relief associations were first required to amortize their unfunded actuarial accrued liabilities rather than only pay the interest on the unfunded actuarial accrued liability.

5. Tax Relief.

- The 1971 police state aid was created to provide larger cities with local police relief associations with property tax relief, with 80 percent of the initial police state aid amount payable to municipalities with local relief associations and 20 percent of the initial police state aid amount payable to the Public Employees Police and Fire Retirement Plan (PERA-P&F) for PERA -P&F covered municipalities.

- The 1978 MERF state contribution program was created to provide the City of Minneapolis with property tax relief.
- The 1984 police and paid fire relief association supplemental amortization state aid program was created to provide the dozen or 18 cities with property tax relief.

6. Duplicate or Approximate the Effect of Other Aid Programs.

- The 1971 police state aid program was established to provide, for the police relief associations, the same type of state aid as received by fire state aid recipients.
- The 1993 ambulance personnel state aid program was created to provide volunteer ambulance service personnel with a state funding program somewhat comparable to the baseline aid provided to small volunteer firefighter relief associations.

7. Address Distribution Problems with an Existing State Aid Program.

- The 1996 minimum volunteer firefighter fire state aid program was created to bring the amount of fire state aid per firefighter payable to the smaller volunteer firefighter fire departments up to a floor amount to offset the modest aids amounts payable on a strict comparative population and property value basis.

8. Recapture Other Pension-Related Aid.

- In 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 9), amortization state aid and supplemental amortization state aid unpaid to local police and paid firefighter relief associations or consolidation accounts was reallocated to the former Minneapolis Teachers Retirement Fund Association (MTRFA), the St. Paul Teachers Retirement Fund Association (SPTRFA), and to the minimum volunteer firefighter fire state aid program and in 2009 (Laws 2009, Ch. 169, Art. 8, Sec. 3), the reallocation was broadened to include the Duluth Teachers Retirement Fund Association (DTRFA).
- The 1997 additional amortization state aid program was enacted to redistribute a portion of the police state aid unpaid to local governmental entities which reached their maximum police state aid amount and, in 2008 (Laws 2008, Ch. 349, Art. 8, Sec. 3), any additional amortization state aid released by local police and paid firefighter consolidation accounts ending their additional employer contribution to the Public Employees Police and Fire Retirement Plan (PERA-P&F) under the 1999 consolidation account merger was reallocated to the St. Paul Teachers Retirement Fund Association (SPTRFA), the City of Minneapolis for the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, the City of Duluth for police and fire pension costs, and the minimum volunteer firefighter fire state aid program.

c. Relationship Between Present State Aid Programs and Pension Costs or Pension Liabilities. Most state pension aids, on a program by program basis, have some connection to pension plan costs or pension plan liabilities, but aid amounts are not closely tied to pension costs or pension liabilities.

Six of the 16 state pension aid programs are limited to a pension cost or pension disbursement amount:

1. The police state aid program was not originally limited to employer police pension costs, but was amended in 1978 to be limited to a reimbursement of an employing unit's employer police pension contribution when the police state aid was specifically dedicated to pension purposes.
2. The 1979 state funding of the Minneapolis Employees Retirement Fund (MERF) was initially the balance of the MERF employer funding requirement above a specific Minneapolis portion, but subsequently was capped at specific dollar amounts as MERF became better funded and pension fund investment returns were substantial, with the aid currently capped at \$9 million annually.
3. The volunteer fire supplemental benefit reimbursement is a reimbursement of the prior year's lump sum supplemental benefit payout, capped at \$1,000 for retired firefighters and \$2,000 for surviving spouses.
4. The former pre-1974 retiree MERF post-retirement adjustment aid was based on the expected adjustment payouts before being rolled into the 1979 MERF state funding.

5. The teacher retirement funding initially was based on payouts from the 1915 Law Teachers Insurance and Retirement Fund and then from the Teachers Retirement Association (TRA), then was based generally on TRA and first class city teacher retirement fund association employer contribution rates after the 1967 enactment of the sales tax, was based on the employer contribution rates when the categorical education aids replaced the direct to retirement fund program in the mid-1980s and when the categorical education aids were rolled into the general state education aid program in the late 1980s, and has been adjusted for employer contribution rate changes since the late 1980s.
6. The 1997 General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) employer contribution increase aid was based on the 1997 employer contribution increase on Fiscal Year 1997 payrolls.

Six of the 16 state pension aids are not payable to a particular retirement fund or employing unit if the applicable retirement plan lacks an unfunded actuarial accrued liability, with other recipients typically increasing their portion of the aid amount. These aid programs are as follows:

1. Local police and paid firefighter relief association amortization state aid.
2. 1994 supplemental police and fire amortization state aid.
3. 1997 additional police and fire amortization state aid.
4. 1993 former MTRFA and SPTRFA state aid.
5. 1996 MTRFA and SPTRFA state aid.
6. 1997 first class city teacher retirement fund association state aid.

Four of the state aid programs pay state aid irrespective of pension plan costs or pension liabilities:

1. Fire state aid is generally payable based on geographic factors that are some measure of firefighting service need (i.e., proportional population and proportional property value) and is not tied to or limited to firefighter retirement costs or liabilities.
2. Minimum volunteer firefighter state aid is payable based on the differential between the geographic factor fire state aid amount and a minimum per firefighter floor amount, without regard to firefighter retirement costs or liabilities.
3. The first class city fire insurance surcharge program makes payments to Duluth, Minneapolis, and St. Paul without regard to firefighter retirement costs or unfunded actuarial accrued liabilities.
4. The ambulance personnel state aid program funds retirement plan-like benefit coverage that follows the defined contribution plan model, where the contribution level rather than a specified benefit levels sets the plan cost and liabilities.

d. Other Observations.

1. The 16 retirement-related state aids were created, added, and modified without the enacting or modifying legislation clearly delineating their purpose, placing subsequent Commissions and Legislatures at a disadvantage when considering alterations in the programs. For instance, in 2009, the 1980 local police and paid firefighter relief association state aid was modified to allow local relief associations that previously eliminated their unfunded actuarial accrued liabilities and subsequently have unfunded actuarial accrued liabilities reoccur to again become eligible to receive the state aid. Minnesota Statutes, Sec. 423A.02, Subd. 1, does not indicate that the aid program was developed to avoid having the Legislature impose an unfunded mandate on local governments when municipalities first were required by statute to amortize its unfunded actuarial accrued liability rather than simply pay the interest on the unfunded actuarial accrued liability, although contemporaneous (1980) Commissions staff documents clearly indicate that purpose. Reinstating eligibility for municipalities where the relief association became fully funded and then became less than fully funded again is consistent with a purpose of providing local property tax relief, but it was not consistent with the 1980 purpose of the state aid program as understood by the Commission staff.
2. Many of the pension state aid programs have been categorized for purposes of the state budget as property tax assistance and, since the creation of the programs, have been moved into the jurisdiction of the tax committees of the Legislature. When the tax committees consider the various pension state aids under their jurisdiction (i.e., fire state aid minimum volunteer firefighter fire state aid, police state aid, the volunteer firefighter lump sum supplemental benefit reimbursement, local police and paid fire relief association amortization state aid, supplemental

police and fire amortization state aid, additional police and fire amortization state aid, and the 1997 PERA-General employer contribution rate increase state aid), they do so without any understanding of the purpose or the history of the program and may make less well considered and more policy disruptive changes.

3. Many of the pension state aid programs are intertwined in order to keep them dedicated to some pension use and in order to prevent them from canceling back to the State General Fund. The intertwining of pension state aid programs works to blur the purpose for which the aid program exists and opens allocations to potential manipulation. The intertwining of the various state aid programs makes those programs more opaque and less understandable for policy makers, pension plan members, and taxpayers.
4. Except for the teacher-retirement-related state pension aids, the largest state pension paid programs in amount are dedications of the proceeds of a tax rather than being based on some objective measure of a pension funding need, where the amount of the dedicated revenue producing aid payments is a function of non-pension-related factors.
5. With the exception of the teacher retirement funding aids, which are a function of an indirect state employer obligation, the MERA state aid program, and the 1987 PERA-General employer contribution increase state aid, Minnesota pension state aids are oriented to public safety personnel (police, fire, and ambulance pensions), although public safety personnel make up just under nine percent of the total Minnesota public pension plan active membership and just over six percent of the total Minnesota public pension plan membership.

Conclusion

This memorandum summarizes Minnesota's current programs providing financial assistance to Minnesota public employee retirement funds or to employers of public employees covered by Minnesota public employee retirement plans as part of the basis for consideration by the Legislative Commission on Pensions and Retirement of the options for and the advantages and disadvantages of creating a special state fund or account to assist financially troubled Minnesota public retirement plans in consolidating with other public retirement plans in order to solve some of that financial difficulty.