



H.F. 3744
(Larson)

S.F. 3532
(Larson)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Police and Fire Additional Amortization Aid
Relevant Provisions of Law: Minnesota Statutes, Section 423A.02, Subdivision 1b
General Nature of Proposal: Redirection of additional amortization aid newly available after 2009
Date of Summary: March 25, 2008

Specific Proposed Changes

- Additional amortization state aid freed up after 2009 when the unfunded liability of 10 municipalities with former police or fire consolidation accounts and their additional municipal contribution obligation to the Public Employees Police and Fire Retirement Plan (PERA-P&F) ends is reallocated in equal shares to the St. Paul Teachers Retirement Fund Association (SPTRFA), the city of Minneapolis, the city of Duluth, and the minimum volunteer firefighter fire state aid program.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of the designated recipients of redirected aid.
2. Appropriateness of proposed allocations to designated redirected aid recipients.
3. Lack of allocation procedure for Minneapolis redirected aid when its police and firefighter relief associations become fully funded.
4. Lack of aid termination date and reallocation procedure for Duluth redirected aid.
5. State general fund impact of the proposed legislation.
6. Need for a general reappraisal of the numerous amortization and related pension aid programs.

Potential Amendments

H3744-1A is a technical amendment intended to make the current statute and added provisions more readable.

H3744-2A redirects aid amounts to SPTRFA, TRA, and minimum fire state aid, the current designated aid redirection recipients.

H3744-3A expands proposed aid redirection recipients to five by adding TRA.

H3744-4A allows commission to specify different redistribution percentages

H3744-5A requires better disclosure of amortization dates by Minneapolis police and fire relief associations.

H3744-6A requires disclosure of specific average age and average life expectancy information by Minneapolis police and fire relief associations

H3744-7A specifies a reallocation of Minneapolis redirected aid when Minneapolis police and fire become fully funded.

H3744-8A sets redirection aid termination date for Duluth and reallocation procedure for subsequent amounts.

H3744-9A sets Duluth redirection aid termination based on receipt of a total amount to be specified, with reallocation procedure.

H3744-10A sunsets amortization aid programs at a designated future date (to be specified) to spur a reevaluation of aid programs.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *JAM*
RE: H.F. 3744 (Thissen); S.F. 3532 (Larson): Local Police and Fire Additional Amortization Aid; Reallocation of Aid for Consolidated Local Police and Fire Relief Associations
DATE: March 25, 2008

Summary of H.F. 3744 (Thissen); S.F. 3532 (Larson)

H.F. 3744 (Thissen); S.F. 3532 (Larson) amends Minnesota Statutes, Section 423A.02, Subdivision 1b, the allocation of additional amortization aid to various local police and fire relief associations and other public pension plans, by specifying the allocation to the St. Paul Teachers Retirement Fund Association (SPTRFA), to the Minneapolis Police Relief Association and Minneapolis Firefighters Relief Association, to the city of Duluth, and to the minimum volunteer firefighter fire state aid program of the additional amortization aid amounts freed up after the 2009 full funding of local police and paid fire relief associations that merged with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1999.

Background Materials

Attached is background information applicable to retirement plans and state aid programs affected by or relevant to the proposed legislation:

Attachment A: The Amortization State Aid Programs; Including Additional Amortization Aid. The attachment provides information on the local police and fire relief association amortization state aid program, the supplemental amortization state aid program, and the additional amortization state aid program.

Attachment B: The 1987 Local Police and Paid Firefighter Relief Association Consolidation Law and the 1999 PERA-P&F Consolidation Account Merger Law. The attachment provides information on the 1987 legislation that permitted local police or paid firefighter relief associations to consolidate with the Public Employees Retirement Association (PERA) and on the 1999 legislation that permitted the local consolidation accounts to merge into the Public Employees Police and Fire Retirement Plan (PERA-P&F).

Attachment C: Duluth Police and Firefighters Relief Associations and Consolidation Accounts. The attachment provides information on the Duluth Police and Fire pension programs that consolidated with PERA in 1987 and 1992, respectively, and were merged into PERA-P&F in 1999.

Attachment D: Minneapolis Police Relief Association. The attachment provides information on the Minneapolis Police Relief Association.

Attachment E: Minneapolis Firefighters Relief Association. The attachment provides information on the Minneapolis Firefighters Relief Association.

Attachment F: Minimum Volunteer Firefighter Relief Association State Aid Program. The attachment provides information on the additional funding in the Fire State Aid program that is directed to establishing a per firefighter aid floor.

Attachment G: St. Paul Teachers Retirement Fund Association. The attachment provides information on the St. Paul Teachers Retirement Fund Association (SPTRFA).

Attachment H: Police and Paid Fire State Aids Chart. The attachment, from 2000, demonstrates graphically the interconnection of the various state aid programs funding police and fire retirement costs.

Technical Amendment.

Amendment H3744-1A makes the current aid redirection provisions and the proposed aid reduction provision a separate paragraph, aligns the reduction provisions in the same order as the aid recipient paragraph, and uses cross-references rather than percentage references to refer to aid amounts subject to potential redirection.

Discussion and Analysis

H.F. 3744 (Thissen); S.F. 3532 (Larson) reallocates the additional amortization state aid previously paid to municipalities with local police and paid fire consolidation accounts that merged with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1999, with the 64.5 percent of additional

amortization state aid for those former consolidation accounts divided 25 percent for the St. Paul Teachers Retirement Fund Association (SPTRFA), 25 percent for the Minneapolis Police Relief Association or the Minneapolis Firefighters Relief Association, 25 percent for the city of Duluth for police and fire association costs, and 25 percent for the minimum volunteer firefighter fire state aid program.

The proposed legislation raises several pension and related public policy issues for Commission consideration and possible discussion, as follows:

1. Appropriateness of the Designated Recipients of Redirected Aid. The policy issue is the appropriateness of the designated recipients of the additional amortization aid redirected once the former local police and fire consolidation accounts that merged with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1999 and have their additional municipal contribution requirement under Minnesota Statutes, Section 353.665, Subdivision 8, Paragraph (b), end after December 31, 2009. There are currently 12 additional amortization state aid recipients, ten municipalities by virtue of previously underfunded consolidation accounts (Anoka, Columbia Heights, Crookston, Duluth, Faribault, Hibbing, Mankato, St. Cloud, South St. Paul, and Winona), , the city of Minneapolis by virtue of the underfunded Minneapolis Police Relief Association, and Virginia by virtue of the underfunded Virginia Fire Department Relief Association. Current law (added by Laws 1999, Chapter 222, Article 4, Section 15) makes provision for redirecting the applicable additional amortization state aid if the Minneapolis Police and Fire Relief Associations both become fully funded or if the Virginia Fire Department Relief Association, with in each case 49 percent of the redirected aid payable to the Teachers Retirement Association (TRA) (as successor to the former Minneapolis Teachers Retirement Fund Association), 21 percent of the redirected aid payable to the St. Paul Teachers Retirement Fund Association (SPTRFA), and 30 percent to the minimum volunteer firefighter fire state aid program.

The proposed legislation would allocate the additional amortization state aid available for redirection by virtue of the full funding of the remaining former consolidation accounts one-quarter each to the St. Paul Teachers Retirement Fund Association, to the city of Minneapolis for the Minneapolis Police Relief Association and Minneapolis Firefighters Relief Association, to the city of Duluth for police and fire relief association costs, and to the minimum volunteer firefighter fire state aid program. The new proposed allocation excludes one potential recipient included in the current law redirections, the Teachers Retirement Association, standing in the stead of the Minneapolis Teachers Retirement Fund Association, and includes two potential recipients not included in the current law redirections, the city of Duluth and the city of Minneapolis. The practice of redirecting “unused” state aid dedicated to offsetting pension costs dates back at least to the 1980s, when “excess” police state aid was redirected to support the Public Employees Insurance Program, and has made virtually all of the pension-related state aid programs more complicated. It is difficult to identify why the particular recipients of the 1999 redirected additional amortization state aid were selected, as a choice made by the proponents of the 1999 local consolidation account merger bill, but the Commission staff issue memorandum on that proposed legislation did raise the questions of whether redirecting public-safety-related state aid money to teacher retirement plans was appropriate and whether the particular selected recipients were the most appropriate group. SPTRFA and the city of Minneapolis, based on pension funding problems, remain as problematic or more so as they were in 1999. As the inheritor of the MTRFA funding problems, TRA remains a likely recipient of any redirection, but is not made eligible in the proposed legislation. The volunteer firefighter fire state aid floor program has (and will always have) a pension funding need so long as the base fire state aid allocation method, based on the relative population and property value of the applicable fire town, produces dramatic “have” and “have not” recipients of aid. The inclusion of the city of Duluth, which ends its additional police and fire pension cost employer contribution in 2009, just before the start of the redirection in 2010, is without any self-apparent claim to the redirection, since it will have no increased police or fire pension costs after 2009.

If the Commission believes that the recipients of the redirected former consolidation account amortization aid should replicate the set of recipients under the current aid redirection provision, Amendment H3744-2A would make that change.

If the Commission desires to add the omitted recipient of the previously enacted aid redirection provisions to the four proposed recipients of the new redirection, Amendment H3744-3A includes the Teachers Retirement Association to expand the total number of recipients to five.

2. Appropriateness of Proposed Allocations to Designated Redirected Aid Recipients. The policy issue is the appropriateness of the allocations specified in the proposed legislation for the amounts of redirected amortization state aid amounts for the four designated recipients. Each recipient is

allocated one-quarter of the amount of redirected amortization state aid. If the amount of additional amortization state aid remains constant at the 2007 level through 2010, the St. Paul Teachers Retirement Fund Association (SPTRFA) would receive \$245,476.75, the city of Minneapolis would receive \$245,476.75, the city of Duluth would receive \$245,476.75, and the minimum volunteer firefighter fire state aid would receive \$245,476.75.

The current annual funding deficiency of SPTRFA is in excess of \$18.7 million, so the designated amount is not inappropriate based on the current unpaid funding costs. The most recent funding of the Minneapolis Police and Fire Relief Associations yields a net funding surplus of slightly more than \$1.6 million, so the aid amount would be appropriate if the intended goal is to provide budgetary relief for the city of Minneapolis. The designated funding for the city of Duluth is indicated as being for "any costs associated with the police and firefighters relief associations." Since the city of Duluth no longer has local police and firefighters relief associations and the additional costs that it had for the former Duluth police and fire consolidation accounts end December 31, 2009, there are not new or ongoing unpaid pension costs for Duluth that are being covered by the redirected aid amount and the provision would be appropriate if the goal is to provide a general municipal aid to the city of Duluth. The minimum volunteer firefighter fire state aid provides additional fire state aid to municipalities and nonprofit firefighting corporations where the amount is used for establishing a floor fire state aid amount. The volunteer firefighter minimum fire state aid redirection would be appropriate if there is a desire to provide additional fire state aid to the least generous volunteer firefighter relief associations in order to attract or retain their firefighters with an additional benefit that cannot be met from any other reasonable source. If the Commission believes that a different allocation percentage for the various redirected amortization aid amounts would be appropriate, Amendment H3744-4A would provide a mechanism to do so, with the percentages to be specified by the maker of the motion.

3. Lack of Allocation Procedure for Minneapolis Redirected Aid When Police and Firefighter Relief Associations Become Fully Funded. The policy issue is the appropriateness of omitting in the proposed legislation any method for the subsequent allocation of the redirected amortization aid payable to the city of Minneapolis when its police and firefighter relief associations become fully funded. The proposed legislation is clear in its intention to assist in the funding of the Minneapolis Police Relief Association and the Minneapolis Firefighters Relief Association, but lacks any mechanism to discontinue the redirected aid amount when those two relief associations become fully funded and the redirected aid could be utilized in a different fashion. The required amortization date for the Minneapolis Police Relief Association is the year 2020, or if the relief association achieves full funding and then again has an unfunded actuarial accrued liability, the end of the calendar year occurring 15 years after each subsequent actuarial valuation, but not to exceed the average remaining lifetime of the plan membership. The required amortization date for the Minneapolis Firefighters Relief Association is the end of the calendar year occurring 15 years after each actuarial valuation, but not to exceed the average remaining lifetime of the plan membership.

The Minneapolis Firefighters Relief Association and Minneapolis Police Relief Association actuarial valuations do not indicate the average remaining lifetime of the entire plan membership or the applicable required amortization date provisions, which are deficiencies in both actuarial valuation reports. From the membership data that is presented in the Minneapolis Firefighters Relief Association actuarial valuation, the current average age for the plan membership is 71.4 years. While the Commission staff was unable to calculate the remaining life expectancy for each plan member under the plan's recently revised mortality table, some sense of the applicable amortization period for the Minneapolis Firefighters Relief Association, if properly calculated by the consulting actuary, could be gained by using the Minnesota average life expectancies (age 76.5 for males and age 81.5 for females) averaged for the composition of the plan (71.55 percent male and 28.45 percent female), or age 77.9, leaving a likely amortization period of 6.5 years and a likely required full funding date of 2013. The Minneapolis Police Relief Association actuarial valuation also does not present any data on the average ages of retirees or survivors, which the Minneapolis Firefighters Relief Association actuarial valuation, prepared by the same actuary, presents.

If the Commission is concerned about the lack of disclosure about the required amortization dates for the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, the situation could be remedied by Amendment H3744-5A, which requires the disclosure of the amortization date used to calculate the amortization requirement in the annual financial requirements of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, requires specification of the statutory citation governing that requirement, and, if based on average remaining lifetimes of the plan membership, requires the disclosure of the underlying calculations of the average remaining lifetime.

If the Commission is concerned about the current lack of disclosure in the Minneapolis Firefighters Relief Association and Minneapolis Police Relief Association of average plan member age and life expectancy, Amendment H3744-6A requires average age and life expectancy disclosure.

If the Commission concludes that some provision is needed for the reallocation of additional amortization aid redirected to Minneapolis under the proposed legislation once the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association are both fully funded, Amendment H3744-7A reallocates the Minneapolis aid amount to the Teachers Retirement Association (TRA) as the successor to the former Minneapolis Teachers Retirement Fund Association (MTRFA), to the St. Paul Teachers Retirement Fund Association (SPTRFA), and to the minimum volunteer firefighter fire state aid in equal parts.

4. Lack of Aid Termination Date and Reallocation Procedure for Duluth Redirected Aid. The policy issue is the appropriateness of providing redirected aid to the city of Duluth without any specified termination event or date and without any procedure for reallocating the city of Duluth redirected additional amortization aid amount when the appropriate termination event or date for the city of Duluth is reached. The proposed legislation indicates that the redirected additional amortization aid is “to pay for any costs associated with the police and firefighters relief associations.” Since the Duluth Fire Department Relief Association and Duluth Police Relief Association consolidated into the Public Employees Retirement Association (PERA) in 1992 and 1987, respectively, and the two consolidation accounts merged with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1999, with the final additional municipal contribution for the remaining unfunded liability of the former Duluth Fire Consolidation Account to be fully paid on December 31, 2009, and since the city of Duluth will have no police and firefighters relief association costs to fund after 2009, there is no readily identifiable event on which to specify a termination date for the proposed redirected Duluth aid.

Amendment H3744-8A sets a to-be-determined date for the redirected Duluth aid to be terminated, with the succeeding state aid amount reallocated to the Teachers Retirement Association (TRA) as the successor to the former Minneapolis Teachers Retirement Fund Association (MTRFA), to the St. Paul Teachers Retirement Fund Association (SPTRFA), and to the minimum volunteer firefighter fire state aid in equal amounts.

Amendment H3744-9A sets the termination of the state aid redirected to Duluth when a yet-to-be-determined total dollar amount of aid has been achieved, with the succeeding state aid amount reallocated as provided in Amendment H3744-8A.

5. State General Fund Impact. Although the policy issue is of greater potential interest to the tax committees, where the amortization aid programs are part of budget targets, and to the appropriations/finance committees, the redirection of the additional amortization state aid amounts freed up by the reaching of the full funding target dates of most of the local police and paid fire relief associations and consolidation accounts impacts on the State General Fund and may be of concern to the Commission. Normally, unexpended state appropriations cancel back to the State General Fund. When programs with State General Fund appropriations terminate, the appropriations usually revert to the General Fund. With a number of pension-related state aids, that reversion to the General Fund has generally been avoided by redirecting the pension-related aid to another pension-related problem area. Whether having those redirections continue indefinitely is good policy both for the General Fund and for Minnesota public pensions is open to question. The proposed legislation, if added to an omnibus retirement bill rather than continuing through the process on its own as a freestanding bill, would likely cause the omnibus retirement bill to be re-referred to the appropriations/finance committees.
6. Need for a General Reappraisal of the Numerous Amortization and Related Pension Aid Programs. Although the intertwining and expansion of pension paid programs may have been a beneficial pension practice in the past, the intertwining and expansion of those aid programs has resulted in a highly confusing commitment of state financial resources to pension programs and raises the policy issue of whether or not a reconsolidation and simplification of the current programs is appropriate. Because of the complexity of the current situation, any reappraisal and realignment or reformulation should only occur after the Commission has had a chance to conduct an interim study on the topic to identify all of the key elements and to weigh the perspectives of interested parties before settling on any proposal. If the Commission desires to ensure that reevaluation of the amortization state aid programs occurs in an upcoming Interim, Amendment H3744-10A sets a sunset date earlier than the full funding of the St. Paul Teachers Retirement Fund Association, the current aid program termination event, for the three aid programs at December 31 of a year to be specified.

Attachment A

**Background Information on the
Amortization State Aid Programs, Including Additional Amortization State Aid**

- a. In General. As part of the resolution of the issue of the manner in which pension coverage is provided to police officers and firefighters, state aid programs were established to assist the applicable municipalities in meeting the additional financial obligations that accompanied that coverage resolution. Three state aid programs were established, the local police and paid fire amortization state aid, the supplemental police and paid fire amortization state aid, and the additional amortization state aid.
- b. Amortization State Aid.
1. Establishment. The local police and paid fire relief association amortization state aid was established in 1980 (Laws 1980, Chapter 607, Article XV, Section 5), as part of the legislation provided for the closing of most local police and paid fire relief associations to new entrants. The program is currently coded as Minnesota Statutes, Section 423A.01, Subdivision 1. In 1980, local police and salaried firefighter relief associations were closed to new members. New hires were redirected to 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.
 2. 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, Chapter 319, Article 19, Section 7, and Laws 1989, Chapter 335, Article 1, Section 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, Chapter 345, Article 1, Section 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:

Year	Total		
	Amortization Aid	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

