



S.F. 1625

(Skoe)

H.F. 1923

(Sailer)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): PERA Privatization
Relevant Provisions of Law: Minnesota Statutes, Chapter 353F
General Nature of Proposal: Extends the filing date for Clearwater County Memorial Hospital
Date of Summary: March 30, 2009

Specific Proposed Changes

- Amends, for the second time, the effective date of 2006 legislation to include employees of Clearwater County Memorial Hospital, doing business as Clearwater Health Services in Bagley, under the Public Employees Retirement Association privatization chapter, by extending the deadline for filing the Clearwater County local approval with the Secretary of State until December 31, 2009.

Policy Issues Raised by the Proposed Legislation

1. Current support by the parties for the treatment proposed in 2006.
2. Impact on PERA.
3. Appropriateness of a deadline extension.
4. Issues posed by a second extension.

Potential Amendment

S1625-1A would require a new actuarial review to determine whether it remains the case that the privatization is not expected to impose a loss on PERA. The new review must be based demographic information submitted within one year before January 1, 2010, and must be paid by the current or future employer.



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director *EB*

RE: S.F. 1625 (Skoe); H.F. 1923 (Sailor): PERA; Clearwater County Memorial Hospital (Clearwater Health Services in Bagley) Privatization, Second Extension of Prior Legislation Effective Date

DATE: March 30, 2009

Summary of S.F. 1625(Skoe); H.F. 1923 (Sailor)

S.F. 1625 (Skoe); H.F. 1923 (Sailor) amends, for the second time, the effective date of 2006 legislation which would have placed employees of Clearwater County Memorial Hospital, doing business as Clearwater Health Services in Bagley, under the Public Employees Retirement Association privatization chapter (Minnesota Statutes, Chapter 353F), by extending the deadline for filing the Clearwater County local approval with the Secretary of State until December 31, 2009.

Background and Discussion

The original Clearwater County Memorial Hospital privatization legislation predated the new system, first used this year, which requires the Public Employees Retirement Association (PERA) to determine whether the criteria used by the Commission in considering privatizations is met. Those criteria are that an actuarial review of impact of the privatization on PERA indicates that PERA will not be harmed if the entity is added to the PERA privatization chapter, and that the current or new owner, rather than PERA, must pay for the actuarial review. If the actuarial work indicates no harm, the executive director of PERA is required to submit draft language to the Commission to include in the PERA privatization chapter all those privatizations which meet the criteria, rather than having each privatized entity have separate legislative bills.

During the 2006 Legislative Session (Laws 2006, Chapter 271, Article 5, Section 5), the Commission's omnibus pension bill was amended by the House Government Operations Committee to add Clearwater County Memorial Hospital, doing business as Clearwater Health Services in Bagley, to the PERA privatization chapter (Chapter 353F), pending local approval and a finding that the privatization would not impose an actuarial loss on PERA.

A privatization of the hospital did not occur within the required time frame. Local approval must be provided before the first day of the start of the next legislative session or the legislation does not become effective.

In 2008 (Laws 2008, Chapter 349, Article 5, Section 26), the 2006 legislation was revised by extending the deadline to permit the certificate of approval to be filed before January 1, 2009. Apparently the privatization was not finalized by that date, and another extension is being requested.

S.F. 1625 (Skoe); H.F. 1923 (Sailor) raises the following pension and related public policy issues:

1. Current Support by the Parties for the Treatment Proposed in 2006. Given that considerable time has passed since the privatization legislation was first proposed, the Commission may wish to seek assurance that the parties continue to support the treatment that would be provided under the PERA privatization chapter before considering a second extension of the deadline for filing local approval.
2. Impact on PERA. PERA would be better off if the Clearwater County Memorial Hospital legislation never becomes effective. Placing employees in the PERA privatization chapter causes PERA to forgo some of the actuarial gains that would otherwise occur due to a privatization.
3. Appropriateness of a Deadline Extension. Local approval deadlines for privatizations have been extended on a few occasions. The first occurred in 2006, when the deadline for approving the privatization of Hutchinson Area Healthcare was extended until January 1, 2008, by amendment in the House Rules Committee. The second time a privatization deadline was extended was in 2008, when a provision to extend the deadline for the Clearwater County Memorial Hospital privatization was

included in the major pension plan administrative bill which was recommended to pass, including the Clearwater provision, and was incorporated into the Commission's omnibus pension bill.

4. Issues Posed by Second Extension. While there have been two cases where an extension has been granted, including once already for Clearwater, an issue is whether it is appropriate to grant a second extension. Staff is unaware of any cases where a second privatization legislation extension has been requested or granted. At some point the actuarial work upon which the conclusion is based, that adding the entity to PERA's privatization chapter will not impose a loss on PERA, is too old to be reliable. At that point it would be appropriate to require a new actuarial review.

Options for Commission Consideration

The Commission has three readily identifiable options:

1. Recommend approval of the bill, without amendment, to extend the local approval deadline. The risk is that the actuarial work is too old to be reliable, and that permitting the inclusion in the PERA privatization chapter could impose a loss on PERA. However, in an attached e-mail, PERA Executive Director Mary Vanek indicates she does not feel new actuarial work is needed at this time.
2. Recommend approval with a requirement that new actuarial work must be done, and a finding of no harm to PERA, before the privatization legislation could become effective.
 - Amendment S1625-1A would require a new actuarial review to determine whether it remains the case that the privatization is not expected to impose a loss on PERA. The new review must be based demographic information submitted within one year before January 1, 2010, and must be paid for by the current or future employer.
3. Decline to take any action at this time. If an extension is not permitted, Clearwater can work with PERA to be included in next year's privatization draft to be submitted by PERA to the Commission and Legislature.

Laws 2008, Chapter 349, Article 5, Section 36

Sec. 36. Laws 2006, chapter 271, article 5, section 5, is amended to read:

Sec. 5. EFFECTIVE DATE.

(a) Sections 1, 3, and 4 are effective the day following final enactment and section 3 has effect retroactively from July 25, 2005.

(b) Section 2 with respect to the Cannon Falls Hospital District is effective upon the latter of:

(1) the day after the governing body of the Cannon Falls Hospital District and its chief clerical officer meet the requirements under Minnesota Statutes, section 645.021, subdivisions 2 and 3; and

(2) the first day of the month following certification to the Cannon Falls Hospital District by the executive director of the Public Employees Retirement Association that the actuarial accrued liability of the special benefit coverage proposed for extension to the privatized City of Cannon Falls Hospital employees under section 1 does not exceed the actuarial gain otherwise to be accrued by the Public Employees Retirement Association, as calculated by the consulting actuary retained under Minnesota Statutes, section 356.214. The cost of the actuarial calculations must be borne by the current employer or by the entity which is the employer following the privatization.

(c) Section 2, with respect to Clearwater County Memorial Hospital, is effective upon the latter of:

(1) the day after the governing body of Clearwater County and its chief clerical officer meet the requirements under Minnesota Statutes, section 645.021, subdivisions 2 and 3, except that the certificate of approval must be filed before January 1, 2009; and

(2) the first day of the month following certification to Clearwater County by the executive director of the Public Employees Retirement Association that the actuarial accrued liability of the special benefit coverage proposed for extension to the privatized Clearwater Health Services employees under section 2 does not exceed the actuarial gain otherwise to be accrued by the Public Employees Retirement Association, as calculated by the consulting actuary retained under Minnesota Statutes, section 356.214. The cost of the actuarial calculations must be borne by the current employer or by the entity which is the employer following the privatization.

(d) Section 2 with respect to the Dassel Lakeside Community Home is effective upon the latter of:

(1) the day after the governing body of the city of Dassel and its chief clerical officer timely complete compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3; and

(2) the first day of the month next following certification to the Dassel City Council by the executive director of the Public Employees Retirement Association that the actuarial accrued liability of the special benefit coverage proposed for extension to the privatized Dassel Lakeside Community Home employees under section 2 does not exceed the actuarial gain otherwise to be accrued by the Public Employees Retirement Association, as calculated by the consulting actuary retained under Minnesota Statutes, section 356.214. The cost of the actuarial calculations must be borne by the city of Dassel or by the entity which is the employer following the privatization.

EFFECTIVE DATE. This section is effective the day following final enactment.

Laws 2006, Chapter 271, Article 5, Sections 2 and 5

Sec. 2. Minnesota Statutes 2005 Supplement, section 353F.02, subdivision 4, is amended to read:

Subd. 4. **Medical facility.** "Medical facility" means:

- (1) Bridges Medical Services;
- (2) the City of Cannon Falls Hospital;
- (3) Clearwater County Memorial Hospital doing business as Clearwater Health Services in Bagley;
- (4) the Dassel Lakeside Community Home;
- (5) the Fair Oaks Lodge, Wadena;
- ~~(3)~~ (6) the Glencoe Area Health Center;
- ~~(4)~~ (7) the Hutchinson Area Health Care;
- ~~(5)~~ (8) the Kanabec Hospital;
- ~~(6)~~ (9) the Luverne Public Hospital;
- ~~(7)~~ (10) the Northfield Hospital;
- ~~(8)~~ (11) the RenVilla Nursing Home;
- ~~(9)~~ (12) the Renville County Hospital in Olivia;
- ~~(10)~~ (13) the St. Peter Community Healthcare Center; and
- ~~(11)~~ (14) the Waconia-Ridgeview Medical Center.

Sec. 5. **EFFECTIVE DATE.**

(a) Sections 1, 3, and 4 are effective the day following final enactment and section 3 has effect retroactively from July 25, 2005.

(b) Section 2 with respect to the Cannon Falls Hospital District is effective upon the latter of:

(1) the day after the governing body of the Cannon Falls Hospital District and its chief clerical officer meet the requirements under Minnesota Statutes, section 645.021, subdivisions 2 and 3; and

(2) the first day of the month following certification to the Cannon Falls Hospital District by the executive director of the Public Employees Retirement Association that the actuarial accrued liability of the special benefit coverage proposed for extension to the privatized City of Cannon Falls Hospital employees under section 1 does not exceed the actuarial gain otherwise to be accrued by the Public Employees Retirement Association, as calculated by the consulting actuary retained under Minnesota Statutes, section 356.214. The cost of the actuarial calculations must be borne by the current employer or by the entity which is the employer following the privatization.

(c) Section 2, with respect to Clearwater County Memorial Hospital, is effective upon the latter of:

(1) the day after the governing body of Clearwater County and its chief clerical officer meet the requirements under Minnesota Statutes, section 645.021, subdivisions 2 and 3; and

(2) the first day of the month following certification to Clearwater County by the executive director of the Public Employees Retirement Association that the actuarial accrued liability of the special benefit coverage proposed for extension to the privatized Clearwater Health Services employees under section 2 does not exceed the actuarial gain otherwise to be accrued by the Public Employees Retirement Association, as calculated by the consulting actuary retained under Minnesota Statutes, section 356.214. The cost of the actuarial calculations must be borne by the current employer or by the entity which is the employer following the privatization.

(d) Section 2 with respect to the Dassel Lakeside Community Home is effective upon the latter of:

(1) the day after the governing body of the city of Dassel and its chief clerical officer timely complete compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3; and

(2) the first day of the month next following certification to the Dassel City Council by the executive director of the Public Employees Retirement Association that the actuarial accrued liability of the special benefit coverage proposed for extension to the privatized Dassel Lakeside Community Home employees under section 2 does not exceed the actuarial gain otherwise to be accrued by the Public Employees Retirement Association, as calculated by the consulting actuary retained under Minnesota Statutes, section 356.214. The cost of the actuarial calculations must be borne by the city of Dassel or by the entity which is the employer following the privatization.

1.1 moves to amend S.F. No. 1625; H.F. No. 1923, as follows:

1.2 Page 2, line 11, strike "consulting" and strike "under Minnesota Statutes, section
1.3 356.214" and before the period insert "by the Public Employees Retirement Association.
1.4 The actuarial review must be based on current employee data submitted to the actuary
1.5 within one year before January 1, 2010"

Senator Skoe introduced--

S.F. No. 1625: Referred to the Committee on State and Local Government Operations and Oversight.

1.1 A bill for an act
 1.2 relating to retirement; extending filing date for inclusion of Clearwater County
 1.3 Memorial Hospital in Public Employees Retirement Association; amending
 1.4 Laws 2006, chapter 271, article 5, section 5, as amended.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Laws 2006, chapter 271, article 5, section 5, as amended by Laws 2008,
 1.7 chapter 349, article 5, section 36, is amended to read:

1.8 Sec. 5. **EFFECTIVE DATE.**

1.9 (a) Sections 1, 3, and 4 are effective the day following final enactment and section 3
 1.10 has effect retroactively from July 25, 2005.

1.11 (b) Section 2 with respect to the Cannon Falls Hospital District is effective upon the
 1.12 latter of:

1.13 (1) the day after the governing body of the Cannon Falls Hospital District and its
 1.14 chief clerical officer meet the requirements under Minnesota Statutes, section 645.021,
 1.15 subdivisions 2 and 3; and

1.16 (2) the first day of the month following certification to the Cannon Falls Hospital
 1.17 District by the executive director of the Public Employees Retirement Association that the
 1.18 actuarial accrued liability of the special benefit coverage proposed for extension to the
 1.19 privatized City of Cannon Falls Hospital employees under section 1 does not exceed the
 1.20 actuarial gain otherwise to be accrued by the Public Employees Retirement Association, as
 1.21 calculated by the consulting actuary retained under Minnesota Statutes, section 356.214.
 1.22 The cost of the actuarial calculations must be borne by the current employer or by the
 1.23 entity which is the employer following the privatization.

2.1 (c) Section 2, with respect to Clearwater County Memorial Hospital, is effective
2.2 upon the latter of:

2.3 (1) the day after the governing body of Clearwater County and its chief clerical
2.4 officer meet the requirements under Minnesota Statutes, section 645.021, subdivisions 2
2.5 and 3, except that the certificate of approval must be filed before January 1, ~~2009~~ 2010; and

2.6 (2) the first day of the month following certification to Clearwater County by the
2.7 executive director of the Public Employees Retirement Association that the actuarial
2.8 accrued liability of the special benefit coverage proposed for extension to the privatized
2.9 Clearwater Health Services employees under section 2 does not exceed the actuarial gain
2.10 otherwise to be accrued by the Public Employees Retirement Association, as calculated by
2.11 the consulting actuary retained under Minnesota Statutes, section 356.214. The cost of
2.12 the actuarial calculations must be borne by the current employer or by the entity which is
2.13 the employer following the privatization.

2.14 (d) Section 2 with respect to the Dassel Lakeside Community Home is effective
2.15 upon the latter of:

2.16 (1) the day after the governing body of the city of Dassel and its chief clerical officer
2.17 timely complete compliance with Minnesota Statutes, section 645.021, subdivisions 2
2.18 and 3; and

2.19 (2) the first day of the month next following certification to the Dassel City
2.20 Council by the executive director of the Public Employees Retirement Association that
2.21 the actuarial accrued liability of the special benefit coverage proposed for extension to
2.22 the privatized Dassel Lakeside Community Home employees under section 2 does not
2.23 exceed the actuarial gain otherwise to be accrued by the Public Employees Retirement
2.24 Association, as calculated by the consulting actuary retained under Minnesota Statutes,
2.25 section 356.214. The cost of the actuarial calculations must be borne by the city of Dassel
2.26 or by the entity which is the employer following the privatization.

2.27 **EFFECTIVE DATE.** This section is effective the day following final enactment.