



TO: Members of the Legislative Commission on Pensions and Retirement  
FROM: Lawrence A. Martin, Executive Director *LA Martin*  
RE: Update: Eligibility for Amortization State Aid and Supplemental Amortization State Aid for Minneapolis and Fairmont Following PERA-P&F Merger  
DATE: July 18, 2012

### Introduction

In early Summer 2012, the Commission staff was requested by the Property Tax Division of the Department of Revenue to assist the department with background on the various local police and fire relief association amortization state aid programs following staffing changes in the division. As part of that process of backgrounding the successor division staff on the Amortization State Aid Program and for the Supplemental Amortization State Aid Program, the Department of Revenue revisited the eligibility requirements of applicable municipalities for the receipt of amounts under the two state aid programs, concluding that no municipality met the eligibility requirements under a strict reading of Minnesota Statutes, Section 423A.02, Subdivisions 1 and 1a, for aid in Fiscal Year 2013, including Fairmont and Minneapolis.

### Amortization and Supplemental Amortization State Aid Programs

The Amortization State Aid Program was a special aid program established in 1980 when the Legislature mandated that all local police and paid firefighter relief associations be fully funded by 2010, providing the additional funding needed beyond the interest payment in the 1978 relief association unfunded actuarial accrued liability. The Supplemental Amortization State Aid Program was created in 1984, allocating a total of \$1 million between municipalities with local police and paid firefighter relief associations in order to provide some additional property tax relief for those municipalities.

Full descriptions of the two state aid programs are contained in the following attachments:

- **Attachment A:** Background Information on the Amortization State Aid Program.
- **Attachment B:** Background Information on the Supplemental Amortization State Aid Program.

### Loss of Eligibility for Amortization State Aid by Fairmont and Minneapolis

The Amortization State Aid Program and the Supplemental Amortization State Aid Program were developed largely prior to the trend of local police and paid firefighter relief associations consolidating into the Public Employees Retirement Association (PERA) or merging with the Public Employees Police and Fire Retirement Plan (PERA-P&F). With the consolidations of the Moorhead Fire Department Relief Association and the Moorhead Police Relief Association in 1985 (Laws 1985, Ch. 261, Sec. 5, 25-31), the question arose legislatively about continued eligibility for the two state aids after consolidation, leading to the enactment of Minnesota Statutes, Section 423A.02, Subdivision 2, providing for post-consolidation state aid eligibility for aid recipients who were qualified for receipt in the year before the consolidation. The continuing eligibility practice continued with the 1987 general local police and paid firefighter relief association voluntary consolidation law (Laws 1987, Ch. 296; coded as M.S. Ch. 353A and 353B), and with the 1999 merger with PERA-P&F of local police and fire consolidation accounts within PERA (Laws 1999, Ch. 222, Art. 4). The continued eligibility occurred by adding appropriate cross-references to the consolidation or merger laws in Minnesota Statutes, Section 423A.02, Subdivision 2, (see Laws 1985, Ch. 296, Sec. 17, Subd. 6; Laws 1992, Ch. 437, Sec. 1; and Laws 1999, Ch. 222, Art. 4, Sec. 16).

However, when the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association merged with PERA-P&F under First Special Session Laws 2011, Chapter 8, Articles 6 and 7, and when the Fairmont Police Relief Association merged with PERA-P&F under Laws 2012, Chapter 286, Article 11, appropriate statutory cross-references to the additional municipal contribution requirement with respect to the former local relief association were not included in Minnesota Statutes, Section 423A.02, Subdivision 2. The omission occurred in the original bill for introduction for each consolidation, draft by the Commission staff, and the omission was not caught during subsequent considerations of the applicable bills.

## Short-Term Resolution of the Fairmont and Minneapolis Amortization State Aid Eligibility Issue

On July 10, 2012, Speaker of the House Kurt Zellers and Senate Majority Leader Dave Senjem, in response to a letter from the Department of Revenue seeking clarification of intent regarding the Fairmont police and Minneapolis fire and police consolidation laws, indicated that the omission of appropriate cross-references in Minnesota Statutes, Section 423A.02, Subdivision 2, to the Fairmont and Minneapolis additional municipal contribution requirements was an unintended oversight, indicated that the oversight would be corrected retroactively during the 2013 Legislative Session, and requested that the Department of Revenue make the scheduled aid payments during Fiscal Year 2013.

On July 12, 2012, Senate Minority Leader Thomas Bakk and House Minority Leader Paul Thissen communicated with the Department of Revenue to indicate their concurrence in the recommendation of Speaker of the House Kurt Zellers and Senate Majority Leader Dave Senjem about continued state aid eligibility by Fairmont and Minneapolis.

On July 16, 2012, on behalf of the Department of Revenue, Susan Von Mosch, Assistant Commissioner for Tax Policy, indicated that the Department of Revenue would continue to make Amortization State Aid and Supplemental Amortization State Aid payments to Fairmont and Minneapolis.

A copy of the correspondence is attached.

## Correction of 2011-2012 Amortization State Aid Oversight

Document LCPR12-041 is the Commission staff's attempt to frame the potential legislation that would be necessary to correct the 2011 and 2012 oversights as outlined in the Zellers-Senjem letter to the Department of Revenue. The document amends Minnesota Statutes, Section 423A.02, Subdivision 2, by adding the cross-references to the additional municipal contribution requirements of Fairmont with respect to the merged former Fairmont Police Relief Association and of Minneapolis with respect to the merged former Minneapolis Firefighters Relief Association and the merged former Minneapolis Police Relief Association, retroactive to the effective dates of the three mergers.

## Conclusion

The Commission staff is available to answer Commission member questions about this issue. The Department of Revenue also has indicated that a member of its staff will be available at the meeting to address Commission member questions.

## **Background Information on the Amortization State Aid Program**

1. In General. As part of the resolution of the issue of the manner in which pension coverage was to be provided to police officers and firefighters in 1980 and to avoid a legislative imposition of an unfunded statutory mandate, 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.
2. Amortization State Aid.
  - 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 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 5% 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 administrative expenses, benefit improvements, mortality losses, or any other cause that causes an increase in 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 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 13<sup>th</sup> check post-retirement adjustment for the fiscal year 1990-fiscal year 1991 biennium.
    - In 1991 (Laws 1991, Ch. 345, Art. 1, Sec. 33, 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 general fund direct appropriations.

Local police and paid fire amortization state aid was appropriated every biennium during the period 1991-2002.

- In 2003, the amortization state aid program was reclassified for budgetary target and appropriation consideration purposes within the Legislature as part of the jurisdiction of the tax committees, but the appropriation for the aid program was not included in the tax bills 2003-2008.
- In 2009, (Laws 2009, Ch. 88, Art. 12, Sec. 14-17), the amortization state aid was capped at \$4.72 million and was again made an open and standing appropriation and the payments of amortization state aid 2003-2008 were retroactively authorized.

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, by virtue of the increase in the number of local relief associations that lose qualifications for aid by becoming fully funded or by virtue of relief associations that merged into the Public Employees Police and Fire Retirement Plan (PERA-P&F) and completed their additional employer contribution requirement to PERA-P&F, 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
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	1,977,698	559,386	1,418,312
2004	1,318,465	372,964	945,501
2005	1,332,119	386,579	945,540
2006	1,219,119	345,579	945,540
2007	948,161	559,386	388,775
2008	948,161	559,386	388,775
2009	2,686,038	1,251,058	1,434,980
2010	1,760,259	235,232	1,525,027
2011	730,722	705,696	25,026

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

- c. Qualification Requirements for Receipt of Amortization State Aid. Initially, in 1980, municipalities with a local police or paid fire relief association that were governed by the 1969 Police and Paid Fire Relief Association Financing Guidelines Act (Minn. Stat., Sec. 69.77) and that began phasing out into the PERA-P&F were eligible, upon an approval application, 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. In 1986 (Laws 1986, Ch. 261, Sec. 5), the annual requirement for amortization aid receipt was eliminated and the frequency of applications was made discretionary with the Commissioner of Finance.
- Under 1985 legislation (Laws 1985, Ch. 261, Sec. 5), in conjunction with the total consolidation of the Moorhead Firefighters Relief Association and the Moorhead Police Relief Association into PERA-P&F, 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 as obsolete, recognizing that all local police and paid fire relief associations were closed to new entrants by that date. The continued existence of an unfunded actuarial accrued liability in the most recent actuarial valuations under the state actuarial reporting law (Minn. Stat., Sec. 356.215) was added as a specific eligibility requirement in 1992. Upon its relief association becoming fully funded, 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 general local police and paid firefighter relief association consolidation authorization law (Minn. Stat., Sec. 353A.09, Subd. 5).
  - In 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 9), the portion of prior amortization aid under \$5.72 million 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 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 (Minn. Stat, 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. 16), the 1997 actuarial assumption change continued amortization state aid eligibility provision was removed and a provision was added specifying that received amortization state aid in 1999 and was required to make an additional municipal contribution after 1998 under the local police and fire consolidation account PERA-P&F merger legislation retained continued eligibility for amortization state aid and supplemental amortization state aid until the end of calendar year 2009.
  - In 2011 (1<sup>st</sup> Spec. Sess. Laws 2011, Ch. 8, Art. 8, Sec. 11), references to the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association were revised to indicate the former relief associations.
- 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 5% interest on the relief association unfunded actuarial accrued liability as of December 31, 1978, as reported under the actuarial reporting law (Minn. Stat., Sec. 356.215 and 356.216) and the 32-year (year 2010), 5% interest level dollar amortization requirement for the same relief association unfunded actuarial accrued liability. Under Minnesota Statutes 1978, Section 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 (5%) 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 13th 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 to 13), the Minneapolis police and fire 13<sup>th</sup> check investment performance threshold was redefined such that the post-retirement adjustment was a greater likelihood and Minneapolis was largely eliminated from the amortization state aid allocation.
- In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 17), a total was set on amortization state aid payable to PERA-P&F on behalf of a municipality with a former local police or fire consolidation account merged into PERA-P&F, set at the total additional municipal contribution payable by the municipality, with any overage above the total reallocated to other municipalities with additional employer contributions under the PERA-P&F merger legislation in proportion to the comparative size of the additional contribution amount until all applicable municipalities reach the limit, whereupon any aid in excess of the applicable totals reallocated in the same manner as for fully funded local police or paid firefighter relief associations.
- In 2000 (Laws 2000, Ch. 461, Art. 9, Sec. 2), the reallocation of amortization state aid, supplemental amortization state aid, and additional amortization state aid in excess of the 1999 limit was revised to be allocated as additional amortization state aid.
- In 2007 (Laws 2007, Ch. 134, Art. 1, Sec. 12), references to the Minneapolis Teachers Retirement Fund Association (MTRFA) in the amortization state aid and supplemental

amortization state aid reallocation provision were corrected to the Teachers Retirement Association (TRA) to reflect the 2006 consolidation into TRA.

- In 2009 (Laws 2009, Ch. 169, Art. 8, Sec. 2-3), the provision ending eligibility for amortization state aid because the pension arrangement giving rise to the aid became fully funded was eliminated, reinstating amortization state aid eligibility for the Minneapolis Firefighters Relief Association and the Fairmont Police Relief Association, and the reallocation of amortization state aid and supplemental amortization state aid to teacher retirement funds was revised, reducing the allocation to the Teachers Retirement Association (TRA) from 70% to 50%, increasing the allocation to the St. Paul Teachers Retirement Fund Association (SPTRFA) from 30% to 40%, and newly including the Duluth Teachers Retirement Fund Association (DTRFA) for 10%.
- In 2010 (Laws 2010, Ch. 359, Art. 1, Sec. 84), the 1996 provision was eliminated that required the creation of a separate account for the amortization state aid and supplemental amortization state aid redirected to first class city teacher retirement fund associations and the required exclusion of any assets in that account in determining funding for purposes of determining benefit increases.
- In 2012 (Laws 2012, Ch. 286, Art. 8, Sec. 9), obsolete prior year additional school district contribution requirement amounts and other obsolete language was revised or eliminated for the reallocation of aid to TRA and SPTRFA.

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).
- 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.
- f. Termination of the Aid Program.
- In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 18), the date on which the amortization state aid, the supplemental amortization state aid, and the additional amortization state aid will terminate was set at the Minneapolis Teachers Retirement Fund Association (MTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA) becoming fully funded.
  - In 2007 (Laws 2007, Ch. 134, Art. 1, Sec. 13), the termination date for the amortization state aid, the supplemental amortization state aid, and the additional amortization state aid was reset as of the end of the calendar year in which the St. Paul Teachers Retirement Fund Association (SPTRFA) becomes fully funded.

## Background Information on the Supplemental Amortization State Aid Program

1. In General. As part of the resolution of the issue of the manner in which pension coverage was to be provided to police officers and firefighters in 1980 and to avoid a legislative imposition of an unfunded statutory mandate, 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.
2. Establishment. The supplemental police and paid fire amortization state aid was initially established in 1984 (Laws 1984, Ch. 564, Sec. 48) when a portion of a state budgetary surplus was dedicated to assist the funding of local police and paid fire relief associations. 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, Section 423A.02, Subdivision 1a, in 1991 (Laws 1991, Ch. 345, Art. 1, Sec. 92) as part of a state government appropriations bill.
3. Source of Supplement 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 (Laws 1991, Ch. 345, Art. 1, Sec. 33, 92).

The state resources committed to supplemental amortization state aid have been \$1,000,000 annually for calendar years 1984-1991, \$553,000 for calendar year 1993, \$1,000,000 annually for calendar years 1994 and 1995, \$521,604 for calendar year 1996, and \$520,244 for calendar year 1997.

- In 2009, (Laws 2009, Ch. 88, Art. 12, Sec. 23), the supplemental amortization state aid, direct or reallocated, was continued at its traditional \$1 million level and was specifically made an open and standing appropriation to the Revenue Commissioner annually.
4. Qualification Requirements for Receipt of Supplemental 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.
  5. Qualification Requirements for Receipt of Amortization State Aid. Initially, in 1980, municipalities with a local police or paid fire relief association that were governed by the 1969 Police and Paid Fire Relief Association Financing Guidelines Act (Minn. Stat., Sec. 69.77) and that began phasing out into the PERA-P&F were eligible, upon an approval application, 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. In 1986 (Laws 1986, Ch. 261, Sec. 5), the annual requirement for amortization aid receipt was eliminated and the frequency of applications was made discretionary with the Commissioner of Finance.
    - In 1992 (Laws 1992, Ch. 437, Sec. 1), upon a relief association becoming fully funded, the applicable municipality lost its eligibility for supplemental amortization state aid for that year and all subsequent years and, for consolidation accounts, eligibility for supplemental amortization state aid was clarified as a function of whether or not the municipality had an additional municipal contribution under the general local police and paid firefighter relief association consolidation authorization law (Minn. Stat., Sec. 353A.09, Subd. 5).
    - In 1997 (Laws 1997, Ch. 241, Art. 9, Sec. 1), a municipality that lost eligibility for supplemental 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 supplemental amortization state aid.
    - In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 16), the 1997 actuarial assumption change continued supplemental amortization state aid eligibility provision was removed and a provision was added specifying that received amortization state aid in 1999 and was required to make an additional municipal contribution after 1998 under the local police and fire consolidation account PERA-



P&F merger legislation retained continued eligibility for supplemental amortization state aid until the end of calendar year 2009.

- In 2009 (Laws 2009, Ch. 169, Art. 8, Sec. 2-3), the provision ending eligibility for supplemental amortization state aid because the pension arrangement giving rise to the aid became fully funded was eliminated, reinstating amortization state aid eligibility for the Minneapolis Firefighters Relief Association and the Fairmont Police Relief Association, and the reallocation of amortization state aid and supplemental amortization state aid to teacher retirement funds was revised, reducing the allocation to the Teachers Retirement Association (TRA) from 70% to 50%, increasing the allocation to the St. Paul Teachers Retirement Fund Association (SPTRFA) from 30% to 40%, and newly including the Duluth Teachers Retirement Fund Association (DTRFA) for 10%.
6. 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 "13th 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 "13th check" post-retirement adjustment, supplemental amortization state aid is also reduced with amortization state aid by the amount of the 13th 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 1996 (Laws 1996, Ch. 438, Art. 4, Sec. 9), the portion of prior supplemental amortization aid that was 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 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 (Minn. Stat, Sec. 69.021, Subd. 7, Para. (d)).

The following summarizes the allocation of the supplemental amortization state aid between police relief associations and paid fire relief associations 1984-2011:

Year	Total Supplemental State Aid	Fire Relief Association Aid Portion	Police Relief Association Aid Portion
1984	\$1,000,000	\$489,389	\$510,611
1985	1,000,000	489,389	510,611
1986	1,000,000	489,389	510,611
1987	1,000,000	489,389	510,611
1988	1,000,000	489,389	510,611
1989	1,000,000	489,389	510,611
1990	1,000,000	489,389	510,611
1991	1,000,000	489,389	510,611
1992	1,000,000	489,389	510,611
1993	553,000	288,410	264,590
1994	1,000,000	499,828	500,172
1995	1,000,000	497,101	502,899
1996	521,604	281,733	239,871
1997	520,244	287,510	232,734
1998	435,333	330,299	105,034
1999	543,483	411,135	132,348
2000	529,703	415,993	113,710
2001	279,229	165,519	113,710



Year	Total Supplemental State Aid	Fire Relief Association Aid Portion	Police Relief Association Aid Portion
2002	749,526	165,519	584,007
2003	749,526	165,519	584,007
2004	749,526	165,519	584,007
2005	749,526	165,519	584,007
2006	749,526	165,519	584,007
2007	572,136	165,519	406,617
2008	572,136	165,519	406,617
2009	829,177	396,625	432,552
2010	1,000,000	451,629	548,371
2011	524,493	451,629	72,864

- In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 17), a total was set on amortization state aid payable to PERA-P&F on behalf of a municipality with a former local police or fire consolidation account merged into PERA-P&F, set at the total additional municipal contribution payable by the municipality, with any overage above the total reallocated to other municipalities with additional employer contributions under the PERA-P&F merger legislation in proportion to the comparative size of the additional contribution amount until all applicable municipalities reach the limit, whereupon any aid in excess of the applicable totals reallocated in the same manner as for fully funded local police or paid firefighter relief associations.
- In 2000 (Laws 2000, Ch. 461, Art. 9, Sec. 2), the reallocation of amortization state aid, supplemental amortization state aid, and additional amortization state aid in excess of the 1999 limit was revised to be allocated as additional amortization state aid.
- In 2007 (Laws 2007, Ch. 134, Art. 1, Sec. 12), references to the Minneapolis Teachers Retirement Fund Association (MTRFA) in the amortization state aid and supplemental amortization state aid reallocation provision were corrected to the Teachers Retirement Association (TRA) to reflect the 2006 consolidation into TRA.
- In 2010 (Laws 2010, Ch. 359, Art. 1, Sec. 84), the 1996 provision was eliminated that required the creation of a separate account for the amortization state aid and supplemental amortization state aid redirected to first class city teacher retirement fund associations and the required exclusion of any assets in that account in determining funding for purposes of determining benefit increases.
- In 2012 (Laws 2012, Ch. 286, Art. 8, Sec. 9), obsolete prior year additional school district contribution requirement amounts and other obsolete language was revised or eliminated for the reallocation of aid to TRA and SPTRFA.

Initially, in 1984 (Laws 1984, Ch. 564, Sec. 48), the supplemental amortization state aid to the applicable local relief associations was payable at the same time as police and fire state aid.

- In 1992 (Laws 1992, Ch. 437, Sec. 1), the supplemental amortization aid was made payable to the municipalities with local police and paid firefighter relief associations with unfunded actuarial accrued liabilities and was made payable once per year on July 15.
  - In 1994 (Laws 1994, Ch. 465, Art. 3, Sec. 58), the 1992 aid payment date change was repealed.
7. Permissible Uses of Supplemental 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.
8. Termination of the Aid Program.
- In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 18), the date on which the amortization state aid, the supplemental amortization state aid, and the additional amortization state aid will terminate was set at the Minneapolis Teachers Retirement Fund Association (MTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA) becoming fully funded.
  - In 2007 (Laws 2007, Ch. 134, Art. 1, Sec. 13), the termination date for the amortization state aid, the supplemental amortization state aid, and the additional amortization state aid was reset as of the end of the calendar year in which the St. Paul Teachers Retirement Fund Association (SPTRFA) becomes fully funded.

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## MINNESOTA • REVENUE

June 26, 2012

Senator David Senjem  
Majority Leader  
121 State Capitol  
75 Rev. Dr. Martin Luther King Jr. Blvd.  
St. Paul, Minnesota 55155-1606

Representative Kurt Zellers  
Speaker of the House  
463 State Office Building  
100 Rev. Dr. Martin Luther King Jr. Blvd.  
St. Paul, Minnesota 55155-1206

Senator Julie Rosen  
322 State Capitol  
75 Rev. Dr. Martin Luther King Jr. Blvd.  
St. Paul, Minnesota 55155-1606

Representative Morrie Lanning  
379 State Office Building  
100 Rev. Dr. Martin Luther King Jr. Blvd.  
St. Paul, Minnesota 55155-1206

Senator Mike Parry  
309 State Capitol  
75 Rev. Dr. Martin Luther King Jr. Blvd.  
St. Paul, Minnesota 55155-1606

**RE:** 2012 Amortization Aid and Supplemental Amortization Aid

The purpose of this letter is to alert you to the impacts of recent law contained in two omnibus pension bills (Ch. 8, 1<sup>st</sup> Special Session of 2011 and Ch. 286, 2012 Laws of Minnesota), and seek your clarification of the Legislature's intent.

The Department recently became aware of these circumstances when reviewing the recent law changes to verify 2012 pension aid payment amounts.

Specifically, H.F. 14 (Lanning) / S.F. 7 (Rosen) adopted in the 2011 First Special Session and S.F. 1808 (Rosen) in 2012, provided for the consolidation of the Minneapolis Firefighters Relief Association, the Minneapolis Police Relief Association (in 2011), and the Fairmont Police Relief Association (in 2012) into the Public Employees Police and Fire Retirement Plan (PERA-P&F). Each of these municipalities had previously been receiving Amortization Aid and Supplemental Amortization Aid payments and the statutory authority for those payments hinged on the relief associations being cited under the provisions of M.S. 69.77. Upon merger into PERA, however, the relief associations are no longer cited under M.S. 69.77. Past consolidations have provided new language under M.S. 423A.02, subd. 2, to allow for continued eligibility of pension aid payments to municipalities that continue to be required to make contributions to PERA following the merger. No such language was provided for in Chapter 8 or Chapter 286 for either Minneapolis or Fairmont.


We have been provided information to indicate that continued receipt of Amortization Aid and Supplemental Amortization Aid was part of the term sheet upon which the Minneapolis mergers occurred. Under the terms of the merger, the City of Minneapolis is required to continue mandatory contributions to PERA and both cities have indicated that they have been anticipating continued receipt of these aids. If aids continued to be paid to both municipalities, the City of Minneapolis aid payments would total \$2,728,547 and the City of Fairmont payments would total \$24,172.

Pension aid payments to cities are interrelated to the amount and timely payment of pension aid payments to other entities. Specifically, while the state appropriation for pension aids will total \$5,720,000 under any circumstance, amounts not paid to eligible municipalities will be paid to other relief and retirement associations based on a formula. Under the formula, the remaining Amortization or Supplemental Amortization Aids, after distributions to municipalities, are distributed 30% to minimum state fire aid, and 70% to three teacher retirement associations (where 50% goes to the Teachers Retirement Association, 40% to the St. Paul Teachers Retirement Association, and 10% to the Duluth Teachers Retirement Association). A conclusion to pay Minneapolis and/or Fairmont would result in payments to these entities that are similar to prior years while no payments to Minneapolis and Fairmont will result in substantially larger payments to these entities. We are aware of no information to indicate that these entities have been expecting larger payments beginning in 2012.

The timing of payments is of immediate consideration. Payments to eligible municipalities occur in equal installments on July 15, September 15, and November 15 but payments of unallocated distributions to the teachers retirement associations are made on June 30 (this week). Consequently, the Department has to make a determination of the June 30 payment amounts in the next few days and legislative clarification would greatly assist the Department in its efforts to understand the Legislature's intent.

We would appreciate your advice on the Legislature's intent and, on the potential for a clarification of statutory language during the 2013 legislative session, at your earliest possible convenience.

Sincerely,

  
Matt Massman  
Deputy Commissioner

Cc: Governor Mark Dayton  
Senator Tom Bakk  
Representative Paul Thissen



July 10, 2012

Via Hand Delivery and U.S. Mail

Matt Massman  
Deputy Commissioner  
Minnesota Department of Revenue  
600 North Robert Street  
Saint Paul, MN 55146

Dear Deputy Commissioner Massman:

We are writing in response to your letter dated June 26, 2012 requesting clarification of legislative intent related to provisions contained in two previous omnibus pension bills (Laws 2011, 1<sup>st</sup> Special Session, Chapter 8, and Laws 2012, Chapter 286) and related pension aid payments.

As a result of the pension fund mergers referenced in your letter, the cities of Minneapolis and Fairmont continue to make mandatory pension fund contributions. It is our understanding that Amortization Aid and Supplemental Amortization Aid payments would continue to be made consistent with previous law and practice for those cities following the mergers. We believe the lack of cross-referencing provision to Minnesota Statute 423A.02, subd. 2 to clarify this matter was an unintended oversight in completing these complicated pieces of legislation. We support and will take steps during the 2013 legislative session to enact corrective language clarifying this intent both retroactively and for future pension aid payments.

We request that the Minnesota Department of Revenue continue to proceed with making the Amortization Aid and Supplemental Amortization Aid payments to the cities of Minneapolis and Fairmont in their customary amounts in keeping with our intent.

Sincerely,

Two handwritten signatures are present. The first is for Kurt Zellers, and the second is for Senator Dave Senjem.

Representative Kurt Zellers  
Speaker of the House

Senator Dave Senjem  
Senate Majority Leader

c: Governor Mark Dayton  
Senator Tom Bakk  
Representative Paul Thissen  
Senator Mike Parry  
Senator Julie Rosen  
Representative Morrie Lanning

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July 12, 2012

Matt Massman  
Deputy Commissioner  
Minnesota Department of Revenue  
600 North Robert Street  
St. Paul, MN 55146

Dear Deputy Commissioner Massman:

We are writing in response to the letter sent to you July 10, 2012, from Speaker of the House Kurt Zellers and Senate Majority Leader Dave Senjem regarding Amortization Aid and Supplemental Amortization Aid payments. We fully concur with this letter and will take steps during the 2013 legislative session to enact corrective language clarifying our intent that Minneapolis and Fairmont receive Amortization Aid and Supplemental Amortization Aid payments both retroactively and for future pension aid payments.

We request that the Minnesota Department of Revenue continue to proceed with making Amortization Aid and Supplemental Amortization Aid payments to the cities of Minneapolis and Fairmont in their customary amounts in keeping with our intent.

Sincerely,

Handwritten signature of Thomas M. Bakk in cursive.

Thomas M. Bakk  
DFL Caucus Leader  
State Senator, District 6

Handwritten signature of Paul Thissen in cursive.

Paul Thissen  
House Minority Leader  
State Representative, District 63A

Cc: Governor Mark Dayton  
Senator David Senjem  
Representative Kurt Zellers  
Senator Mike Parry  
Senator Julie Rosen  
Representative Morrie Lanning





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## Lisa Diesslin

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**From:** VonMosch, Susan (MDOR) [susan.vonmosch@state.mn.us]  
**Sent:** Monday, July 16, 2012 12:57 PM  
**To:** Joe.Marble@house.mn; elisabeth.DeBeck@senate.mn; Mark.Shepard@house.mn; stephanie.james@senate.mn; Lundeen, Kevin; Roberts, Helen; Schill, Katherine (katherine.schill@house.mn); Shelby.McQuay@senate.mn; Paulson, Jack (jack.paulson@senate.mn); Nora Pollock (Nora.Pollock@senate.mn)  
**Cc:** Massman, Matt (MDOR); Nord, Jason (MDOR); Larry Martin; Chas.Anderson@house.mn; kevin.matzek@senate.mn  
**Subject:** 2012 Amortization Aid and Supplemental Amortization Aid  
**Attachments:** Amortization aid 6 26 12 letter.pdf; AA leadership letter.pdf; AA minority leader letter.pdf

Hi everyone,

I want to let you know that DOR became aware of impacts contained in two omnibus pension bills (Minnesota Laws, 2011, 1<sup>st</sup> Special Session, Chapter 1 and Minnesota Laws, 2012, Ch. 286). These laws provided for the consolidation of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief association and the Fairmont Police Relief Association into the Public Employees Police and Fire Retirement Plan. Each of these municipalities had previously been receiving Amortization Aid and Supplemental Amortization Aid payments and the statutory authority for those payments hinged on the relief associations being cited under the provisions of M.S. 69.77. With the mergers, however, the relief associations are no longer cited under M.S. 69.77. Past consolidations provided new language under M.S. 423A.02, subd. 2, allowing for continued eligibility of pension aid payments to cities that continue to be required to make contributions to PERA following the merger. No such language was provided for in Chapter 8 or Chapter 286 for either Minneapolis or Fairmont.

On June 26, 2012, DOR sent a letter to legislative leaders asking for their advice on the Legislature's intent. In response, Speaker of the House Rep. Kurt Zellers and Senate Majority Leader Sen. David Senjem sent DOR a letter dated July 10, 2012 clarifying legislative intent and indicating their support and willingness to take steps during the 2013 legislative session to enact corrective language clarifying this intent both retroactively and for future pension aid payments. On July 12, 2012, we also received a letter from Senate Minority Leader Sen. Tom Bakk and House Minority Leader Rep. Paul Thissen concurring with the letter from the majority leaders. Based on these letters, DOR has proceeded to make Amortization Aid and Supplemental Amortization Aid payments to the cities of Minneapolis and Fairmont.

Copies of all letters are attached. Please let me know if you have any questions about these amortization aid payments or any actions moving forward.

Susan

Susan Von Mosch  
Assistant Commissioner for Tax Policy  
Minnesota Department of Revenue  
600 North Robert St.  
St. Paul, MN 55146  
[susan.vonmosch@state.mn.us](mailto:susan.vonmosch@state.mn.us)  
651-556-6005

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1.1 A bill for an act  
 1.2 relating to retirement; amortization state aid and supplemental amortization state  
 1.3 aid; clarifying qualification requirements for aid receipt; amending Minnesota  
 1.4 Statutes 2010, section 423A.02, subdivision 2.

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

1.6 Section 1. Minnesota Statutes 2010, section 423A.02, subdivision 2, is amended to  
 1.7 read:

1.8 Subd. 2. **Continued eligibility.** A municipality that has qualified for amortization  
 1.9 state aid under subdivision 1 on December 31, 1984, and has an additional municipal  
 1.10 contribution payable under section 353A.09, subdivision 5, paragraph (b), as of the most  
 1.11 recent December 31, continues upon application to be entitled to receive amortization  
 1.12 state aid under subdivision 1 and supplementary amortization state aid under subdivision  
 1.13 1a, after the local police or salaried firefighters' relief association has been consolidated  
 1.14 into the public employees police and fire fund. If a municipality loses entitlement for  
 1.15 amortization state aid and supplementary amortization state aid in any year because of  
 1.16 not having an additional municipal contribution under section 353A.09, subdivision 5,  
 1.17 paragraph (b), the municipality is not entitled to the aid amounts in any subsequent year. A  
 1.18 municipality that received amortization aid in 1999 and is required to make an additional  
 1.19 municipal contribution under section 353.665, subdivision 8, continues to qualify for  
 1.20 the amortization state aid and the supplemental amortization aid until December 31,  
 1.21 2009. A municipality that received amortization state aid in 2011 and is required to make  
 1.22 an additional municipal contribution under section 353.667, subdivision 6, 353.668,  
 1.23 subdivision 6, or 353.669, subdivision 6, continues to qualify for the amortization state aid

2.1 and the supplemental amortization state aid for the duration of the additional municipal  
2.2 contribution requirement or until December 31, 2031, whichever occurs earlier.

2.3 **EFFECTIVE DATE.** This section is effective retroactively from July 20, 2011,  
2.4 with respect to the city of Minneapolis and the merged former Minneapolis Firefighters  
2.5 Relief Association and the merged former Minneapolis Police Relief Association and to  
2.6 May 10, 2012, with respect to the city of Fairmont and the merged former Fairmont  
2.7 Police Relief Association.